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*The New York*  
**Certified Public Accountant**



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VOL. XXII

*January • 1952*

No. 1

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**ACCOUNTING EDUCATION**



How Much Education Can an Accountant Use?

Current Problems in Accounting Education

Accounting Internship Programs

Accounting Training for Engineers and Lawyers

Audio-Visual Aids in Accounting Education

Opinions of Representative CPA's Concerning the  
Educational Qualifications Which Prospective  
Employees Should Have

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VOL. XXII

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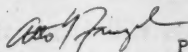
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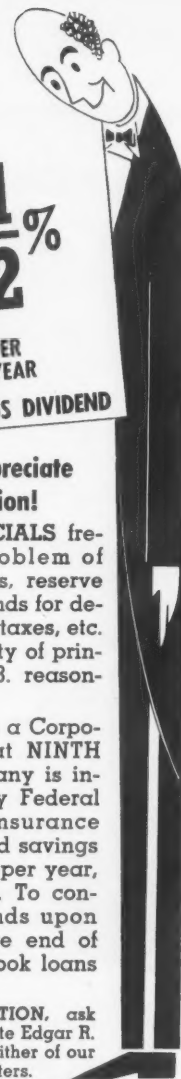
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## BOOK REVIEWS

### Accounting Trends and Techniques in Published Corporate Annual Reports (1951 Edition)

Survey by the Research Department of the  
AMERICAN INSTITUTE OF ACCOUNTANTS,  
New York, N. Y., 1951. Pages: 176; \$10.00.

This is the Institute's fifth annual cumulative survey of the accounting features of the annual reports of 525 corporations. The Research Department has studied the same statements over a five year period (except where mergers or dissolutions made substitutions necessary) for the purpose of pointing up significant trends in presentation. In addition, analytical comment is offered based upon the review of some 600 additional reports.

The results of the survey are presented under five principal captions, as follows:

- I. Certified Financial Statements
- II. Balance Sheet
- III. Income Statement
- IV. Retained Earnings
- V. Accountant's Report

In addition 18 exhibits—reproductions of parts of the annual financial reports of an equal number of corporations—are presented, under these classifications: Customary Financial Statements—Certified; Additional Financial Statements—Certified; Uncertified Financial Statements.

The book contains a long section on pension plans and pension costs (pp. 106 to 120) and a shorter one on stock options and stock purchase plans (pp. 88 to 92). The illustrations of "Unusual Disclosures" by companies (p. 95) will stimulate thought.

Section V, dealing with the accountant's report, may be employed to illustrate the comprehensiveness of the survey. It is made up of these major subdivisions:

1. Recommended Short-Form Accountant's Report
2. Exceptions and Explanations as to Scope of Audit
3. Exceptions and Qualifications as to Opinion Expressed
4. Explanatory Matter and Informatory Remarks

In the latter three sections are found numerous extracts from the accountant's opinion accompanying corporate financial statements. Thus, dealing with the Scope of Audit, approximately 70 examples are presented; with the Opinion Expressed, about 80; with Explanatory Matter and Informatory Remarks, some 25. The latter concern such diverse items as Certificates of Necessity, transfers of reserves to surplus, estimated cost to complete construction, procedures in the computation of employees' wage bonus, post-balance-sheet dividend declaration by subsidiary, unbilled revenue "due to the cycle method of billing," minimum annual rentals

(Continued on page 5)

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## **Book Reviews**

(Continued from page 4)

under leases, estimates of excess profits taxes, and the amounts of letters of credit outstanding.

The final illustration in the section on Informatory Remarks—placed there through the alphabetical arrangement of company names—is one reminiscent of earlier days in accounting: "Our audit has revealed no irregularities in the accounts for the period reviewed. We found the books and records were well maintained and we wish to acknowledge our appreciation of the cooperation of your entire staff."

Throughout the survey appear references to the degree of conformance to suggestions made in the Accounting Research Bulletins. Thus the influence of A.R.B. 39, reflecting the recommendation that the term "Surplus"

be discontinued, is found in the statements of 40 percent of the 525 reporting companies, which proportion used "terms deemed to be 'more nearly connotative of the ideas . . . sought to be expressed'" (p. 17).

The impact—on the published annual reports to stockholders—of the again pressing matter of renegotiation and price redetermination of government contracts is also considered (pp. 57 to 59).

Like the earlier editions of *Accounting Trends and Techniques*, the fifth edition will be a valuable aid to the practitioner.

LEO ROSENBLUM

The School of Business and  
Civic Administration  
The City College of New York.

(Continued on page 6)



## BOOK REVIEWS

(Continued from page 5)

### C.P.A. Review Manual

Edited by Herbert E. Miller. PRENTICE-HALL, Inc., New York, N. Y., 1951. Pages: vii + 702 + xxvi (Index); \$8.00.

The pattern of this publication is directed to senior accounting students seeking a reliable, concise, up-to-date reference on important phases of accounting, business law, and taxation. Primarily, I believe, it was framed to assist the candidate desirous of reviewing those areas which repeatedly appear in the form of questions or problems in C.P.A. examinations. Wherever available, a past C.P.A. problem serves to set forth a thorough illustration. The editor and his collaborators exercised sound choice and judgment in explaining the theory and application of principles of accounting procedure for the subject matter repeatedly appearing in C.P.A. examinations.

The manual is divided into nine sections, as follows:

I—*Introduction*, by Thomas W. Leland—The reader is carefully instructed with respect to the general rules of examination, and given suggestions as to preparation and sitting for the examination. The author on page 5 states that New York and Texas permit candidates without experience to sit for three parts; however, that has been changed for new applicants in New York, since May, 1951. They are permitted to sit for only two parts, theory and law.

II—*Auditing*, by Woodside V. Monegan—This section clearly sets forth the criteria in determining scope of audit, type of audit report, extent and adequacy of internal control, written opinions, audit procedures, acceptable professional conduct as well as the requirements for the Securities and Exchange Commission.

III—*Accounting Theory*, by Paul J. Graber—Incorporates current research bulletins, opinions and rulings of the American Institute of Accountants, Securities and Exchange Commission and American Accounting Association. Assets, liabilities, proprietary interests, reorganization, appreciation, revenue, expense and income taxes are discussed so that the reader is better prepared and acquires the current thoughts and trends.

IV—*Law*, by Essel R. Dillavou—Based upon a survey of questions offered over many years as set forth, the author discusses the highlights of a contract and its elements, minors' contracts, fraud, illegal contracts, statute of frauds, statute of limitations, assignments, negotiable instruments, agency, sales, bailments, real property, mortgages, partnerships, corporations, dissolutions, suretyship, insurance, bankruptcy and other subjects appearing in prior examination questions.

(Continued on page 7)

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## BOOK REVIEWS

(Continued from page 6)

V—*Governmental Accounting*, by Irving Tenner—Within 80 pages, this section contains helpful discussion and illustrations directed to the handling of the many funds employable in a municipal, governmental or non-profit institution. The "Selected Glossary" contains well-framed explanations of terminology.

VI—*Consolidated Statements*, by Herbert E. Miller—Compactly presented covering the necessary considerations and procedures in maintaining book values at cost or current value, determining goodwill, minority interest, mutual holding apportionment of profit or loss, reciprocals, financial statements and working paper presentations. The well-organized illustrations include very recent C.P.A. problems.

VII—*Cost Accounting*, by William J. Schlatter—Subject matter includes valuation of materials, production inventories, job costs, process costs, by-products and joint products, estimated, standard, distribution costs, mining and long-term construction.

VIII—*Sundry Topics*, by H. A. Finney—Briefly and thoroughly the following assorted topics are discussed—Consignments, account sales, estates and trusts, fire losses, foreign exchange, application of funds statement, installment sales, retail method of inventory valuation, statement of affairs, receiverships, realization and liquidation and reorganizations. A digest and illustration appears to restore and augment the reader's prior background.

IX—*Taxation*, by Howard Rumpf—In a separate section, paper bound, covering 132 pages, the author reviews the subdivisions of income and expenses; partnerships, estates and corporations; excess profits taxes; unemployment, social security, gift and inheritance taxes. Since it is a separate pamphlet containing helpful data, it may be used as an aid in professional work in the field.

(Continued on page 70)

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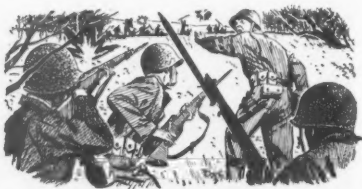
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January



# THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT

EMANUEL SAXE, *Managing Editor*

*The matters contained in this publication, unless otherwise stated, are the statements and opinions of the authors of the articles, and are not promulgations by the Society.*

VOL. XXII

January • 1952

No. 1

## First Annual Conference on Accounting Education at New York University

*Preface by* PAUL A. MCGHEE

*An accountant, says Dean McGhee, must be a broadly educated person as well as an expert technician. As a professional person he must be concerned with ends as well as means, thus becoming one of the chief custodians of the morality of business.*

THE Division of General Education at New York University is dedicated to the community at large. We have some ten thousand adult students in a year, none of them studying for degree credits, but simply because they want to learn more, and become more effective in their work and in their lives. Such a program has many facets, and in addition to semester-length courses, we offer, from time to time, special Conferences and Institutes as we are able to see the need and can enlist the co-operation of leaders in the community in planning to meet it. In this way, the plans for the First Annual Conference on Accounting Education were formed, in cooperation with the School of Commerce, Accounts and Finance and the School of Education,

and sessions were held on October 19-20 at the Washington Square Center of the University. The papers which follow are among those which were delivered to the registrants who attended from the metropolitan area and upstate, as well as from states other than New York.

The problem of what should go into the training of the accountant is, after all, no different from the problem of what should go into the training of any professional person, whether doctor, dentist, banker, or teacher. Each one should know everything, and if possible, a bit more. Each one should be a broadly educated person, knowing the history and culture of the past, and acquainted with the history and the art that makes up our own culture and gives food for our leisure hours. He should possess knowledge about our government so that he can be an effective citizen; he should know something of cultural anthropology so that he can help in the adjustment we must make to the one world which we have become in communications if not in sympathies. He should keep in touch with the discoveries and implications of science so

PAUL A. MCGHEE is the Dean of the Division of General Education of New York University. These remarks are a summary of his welcoming address to the guests attending the Dinner Session of the Conference.

that he will not be an illiterate in a world of special knowledge which is altering the face of things from year to year. And so one could go on. He should know all this and accounting too. There is nothing that does not in one way or another enter into the preparation of an accountant, if an accountant is to be thought of as an enlightened and contributing member of the community. No more brilliant statement of this position can be expected than that of Mr. Maurice E. Peloubet, which follows in these pages.

If accountancy is to be a "profession," there is no problem. To qualify as a member of a "profession" one should have the kind of general education suggested above, and described in richer detail by Mr. Peloubet. The professional man must have it, or as much as he can possibly manage, even if some of the technical aspects of his training must be left for a graduate year or two.

On the other hand, there are those who think of the accountant as simply a kind of technician. If this is all he expects or hopes to be, then it may be true indeed that the breadth of education here suggested would be a luxury. In short, he can settle for less, much less, if his reach does not exceed his grasp.

To the statements which follow may be added two items of special pleading from one concerned with "general education." The first is remarkable chiefly for its simplicity and obviousness. The accountant is an accountant only at certain times and places. At other times and places he becomes a husband, a father, a member of a community, a voter, perhaps a member of a school board, a trustee of a church or of a foundation. In any of these roles, and there are many more, the technical

knowledge he has of accounting will frequently give no aid or comfort. His participation in these areas of influence will be effective and socially beneficent only as he exhibits qualities of humanness and understanding, vision and imagination. Have the seeds for these been planted in his accounting curriculum? If not, he is unprepared to serve in areas where there is the greatest need.

The second item has to do with the extent of the sense of responsibility which the accountant has for his work. A recent conversation with an accountant ended with his statement: "Don't point the finger at me. I simply execute the policies of management. If you have a criticism, send it to the management." The implications are clear. If accountancy is the handmaiden of management policy, and no more, then it is only a tool of management, and the wielder of the tool is and can be only a technician. If this be the case, then discussions of Accountancy as a "profession" have no meaning. A member of a profession must be concerned with ends as well as means. The accountant in our society should and can be one of the chief custodians of the morality of business. As such he has an important responsibility in helping to define the moral content of what we wish our own people and those in other lands to respect as the American system of free enterprise.

New York University is grateful to *The New York Certified Public Accountant* which has devoted this issue to a publication of some of the papers read at this Conference. It is hoped that they will form a valuable contribution to the literature of accounting education.



# How Much Education Can An Accountant Use?

By MAURICE E. PELOUBET, C.P.A.

*An eminent practitioner analyzes this important problem from the viewpoint of an employing "consumer" of accounting education. In a stimulating and enlightening paper, he discusses what the accountant must know—the "means", or accounting and related techniques, and the "method", or applications thereof—as well as the large mass of "material" likely to touch upon his clients' affairs which he must know about.*

THE tools with which an accountant may be said to work fall into three groups: means, method and material.

MAURICE E. PELOUBET, C.P.A., has been a partner in the firm of Pogson, Peloubet & Co. since 1921. He became a member of our Society in 1923, and is its immediate past President.

He has also been active in other accounting organizations, having been Vice President of the American Institute of Accountants, Member of Council, chairman of the Board of Examiners and has been chairman or member of a number of committees. He has been President of the New Jersey Society of Certified Public Accountants and has held other offices in that society. He is also a member and former national director of the National Association of Cost Accountants.

Mr. Peloubet is the author of "Audit Working Papers," and has been a contributor to the Journal of Accountancy, the Bulletins of the National Association of Cost Accountants, and other publications.

This paper was presented by Mr. Peloubet at The First Annual Conference on Accounting Education held under the auspices of the Division of General Education, New York University, on October 19, 1951.

The means by which an accountant works are the accounting techniques, all of which taken together constitute a sort of numerical language or method of description. The method by which these techniques are used and applied is the accountant's method of reasoning and his method of comparing, analyzing and synthesizing his facts. Obviously a language and a method cannot be used in a vacuum. He must have something to describe and he must have some problem to which he can apply his method.

This is what is meant by material. The particular enterprise which the accountant is describing numerically and his general background of knowledge which makes such a description possible are what is included in this term. While these three things will be described separately, they are inextricably intermingled in the accountant's mind and they are learned almost at the same time. However, there is some value in making the separation, particularly for educational purposes. A different method should be used in teaching those subjects which relate to means and method than is used in those subjects which cover material or which form a background for part of the accountant's general equipment.

Perhaps the clearest way to describe the best education for professional accountancy is to work backwards from what the accountant does to the mental equipment which he must have

to do it. Every accountant is occasionally amused or embarrassed by questions, such as "Doesn't bookkeeping get very tiresome?", "Isn't it very hard to work with figures all day?", "You must have to be a wonderful mathematician to do your work." These questions are founded on a broad and comprehensive ignorance of the accountant's work and are to some extent encouraged by the accountant's own failure to analyze just what he does and how he does it. I do not think that this analysis would have any great effect in improving the work of the experienced accountant, but it would be quite useful to educators and to young people faced with the choice of an occupation. More frequently than we imagine good recruits are lost to the profession through a misunderstanding of its work and possibilities.

#### **Means**

The first item in the mental equipment of the accountant is "means," which covers the technique of accounting. This is a sort of language, a method of numerical expression by which otherwise incomprehensible and incommunicable facts can be presented to those concerned in such a way that they may serve as a basis for information, decision and action in any of the affairs of life which are susceptible of numerical expression.

It is an elementary psychological observation that the human mind is quite slow and awkward in grasping any except the simplest numerical fact without some sort of help. There are few people who can tell the number of units or individuals in a group of more than seven or eight, or a few more in special circumstances, without resorting to counting or to making separations into smaller groups. If articles are falling down a chute, few individuals can keep more than a small number in their mind at once and must resort to tallying. A cowboy will divide a herd of cattle in five's with his eye.

However, the ability of the human mind to count, as opposed to its ability

to grasp magnitudes directly, is very great, as is its capacity to comprehend large individual numbers. For this reason the control of any substantial enterprise or other type of activity by any other than numerical means is practically impossible. If numerical means are required then we must have records and something resembling accounts. This is not only true so far as financial affairs are concerned, but operations far removed from business or finance, for example, the planning and execution of a battle, would be almost impossible without numerical accounting records. A general in combat must have accurate numerical records of the disposition and number of his troops, the quantities and location of ammunition, the quantities and locations of supplies, in fact, numerical information on everything which will enter into combat operations. Many accountants were attached to the Army for this type of work and a very distinguished public accountant developed records of this type in the Second World War as a basis for general overall strategy, which, in an incredibly short time after the end of a period, gave vital information of this type to the Chiefs of Staff and to their subordinates.

The accountant must be thoroughly familiar with all the basic techniques of double entry bookkeeping, consolidated and branch accounts, budgetary control, internal control, auditing, foreign exchange, cost accounting, record keeping in general, business machines and methods of presentation of financial statements. He must also have a knowledge of banking, finance, insurance, taxation and commercial law so far as these affect accounts. When he has acquired this we might say he has learned the language and acquired a vocabulary. The accounting curricula of the business schools cover this with reasonable adequacy. Detailed improvements are constantly being made but basically the techniques are well established, particularly the origin-

### *How Much Education Can An Accountant Use?*

al double entry equation, and do not need any elaborate description to this audience.

There is another means of expression of which an accountant must be a master if his work is to be effective beyond a small group of technicians. He must have the ability to express himself clearly and interestingly in English as well as in his own peculiar numerical language. No attempt will be made here to tell the accountant how to acquire a good, clear and simple English style. This will depend on his home training, his teachers in school and college, and on his own basic aptitudes. However, it is not necessary to have any special flair for writing to be able to develop a clear and acceptable business style.

What may be considered profitably here is the way to retain a good style once it has been acquired. The average accountant is exposed to a continuous barrage of poor writing. Government publications, with which he must keep up constantly, are not models of English prose. The newspapers and magazines upon which he is dependent for his daily information, while they may be clear and concise, are often written down to a rather low average level of intelligence. Anyone who wishes to retain a good clear English style should make a special point of reading something for a short time every day, even fifteen minutes or a half hour, which is really well written. The subject is completely immaterial; an essay or story of Stevenson's, something from Jonathan Swift, a chapter or two of Tristram Shandy, a story by Saki, one of Michener's South Pacific tales, almost any good poetry, a few chapters of the Bible, or a scene or two of Shakespeare will be enough.

No attempt is being made here to try to distinguish between what is good or what is bad literature or what is light or heavy. The books and authors mentioned have one thing in common, precision and clarity of style and economy of expression. There is an

immense amount of English literature of the highest type which cannot be used as a model for acquiring a style suitable for an accountant's professional use. All dialect writing is immediately ruled out. Nothing of the "stream of consciousness" school of writing is of much value to the accountant. Much of this writing, of course, has great psychological and literary value but we are speaking here of a limited use of English for a specific purpose.

Authors, like Katherine Mansfield, who rely on remote suggestion and delicate shading for their effects, are not particularly useful models but their works are often great literature. The poetry which might be useful for forming a style suitable for an accountant is more likely to be Pope, Milton, Dryden or Gray rather than Keats, Shelley, Poe, Emily Dickinson or Sara Teasdale. Our problem is a precise, formal but simple presentation of known facts, actual conditions, the relation of one to another, the importance of one condition as it bears on another.

An accountant's report may often produce violent emotion in the reader and the accountant, himself, may feel rather strongly about what he is writing. He cannot, however, allow any emotional feelings to color what he writes. Generally, the accountant relies on facts and the arrangement of facts to make his points. Even in work such as expert testimony in a court or in presenting a case before the Bureau of Internal Revenue, he must still rely on facts and their arrangement for his effect or his emphasis. Emotional language and oratorical appeals damage rather than help his client. The accountant is still the observer, the impartial reporter, the record-keeper. He can explain what his statements and his records mean, he can indicate their implications and he can indicate to what they apply, but he cannot and should not attempt to debate directly the decisions which should be made on the basis of his statements and information.

It is for this reason that writers such as have been suggested are the best ones on which to form an accountant's style. I do not think Dickens, for instance, would be particularly valuable for an accountant as a model of writing or presentation although Dickens' style would be a splendid model for a journalist. Charles Reade, with his violent and effective sarcasm, his righteous and provocative indignation at the social conditions of his day, is still an interesting and inspiring writer but he is not a model for the accountant.

### Method

Once having mastered the language and acquired his vocabulary, the next thing the accountant must learn is how to apply it which I have called, for lack of a better term, "method." I am using this term in the sense in which it was used by Descartes. We can, in fact, hardly do better than to adopt the method of reasoning and thought laid out for himself by Descartes as the method of reasoning and thought best adapted to the accountant's work. Descartes' description of his method is:

"The first was never to accept anything for true which I did not clearly know to be such; that is to say, carefully to avoid precipitancy and prejudice, and to comprise nothing more in my judgment than what was presented to my mind so clearly and distinctly as to exclude all ground of doubt.

"The second, to divide each of the difficulties under examination into as many parts as possible, and as might be necessary for its adequate solution.

"The third, to conduct my thoughts in such order that, by commencing with objects the simplest and easiest to know, I might ascend by little and little, and, as it were, step by step, to the knowledge of the more complex; assigning in thought a certain order even to those objects which in their own nature do not stand in a relation of antecedence and sequence.

"And the last, in every case to make enumerations so complete, and reviews so general, that I might be assured that nothing was omitted."<sup>1</sup>

While accounting is not a science accountants do attack their problems with a method which closely resembles

the scientific method. One of the earliest statements of that method is the one just quoted.

We might say the accountant's method is the ability to read, to analyze, to compare, to weigh the importance of different elements and to observe the relation of the different elements of a problem to each other. A great deal of accounting work is similar to certain types of puzzles. We are given a mass of fragments to be fitted together, or we are given two or three facts from which we must deduce a third, or we are presented with a situation which seems impossible or incorrect on its face on which, nevertheless, we must express an opinion of its correctness or validity.

Almost anything which is conducive to orderly thought, to the development of the reasoning powers and to the development of those powers of observation and inference which are called into play by the use of what we call trial and error, are valuable means for developing this method. The study of mathematics far beyond any practical requirements of professional accountancy, logic, the grammar and structure of a foreign language and the physical sciences are all types of training which will help to form the habits of mind which are necessary for the development of what we might call the accounting method or way of looking at things and reasoning about them.

In the teaching and practice of auditing we have a mingling of means and method. There are certain mechanical techniques in auditing which can be taught and learned. But auditing is not the mere application of techniques. It is basically the exercise of judgment. It is the formation of an opinion based on evidence. The evidence is almost never complete and is almost never completely examined but it must be used as a basis for judgment on a complete set of facts or transactions. The basic processes of auditing are all exercises of judgment.

<sup>1</sup> "A Discourse on Method" by Rene Descartes, Everyman's Library Edition.



## *How Much Education Can An Accountant Use?*

The two foundation stones of modern auditing are the testing and sampling method and reliance on the system of internal check and control in effect in the client's offices. In every case the accountant responsible for the audit must decide how much testing and sampling is necessary, how good the system of internal control is, how much he may rely upon it, how good the system of internal audit is, and what reliance he may place upon the results of the internal audit work. Teaching the mechanics, the technique of auditing, is not a particularly difficult pedagogical task. When we come, however, to teaching judgment we come to a pedagogical problem which, far from being easy, is probably impossible.

The teacher of auditing is faced with a dilemma or difficulty similar to that of Aristotle in defining appetite or of Plato in his inquiry into whether virtue can be taught. After a long and brilliant display of dialectics, Aristotle decided that he could not define appetite and Plato came to the conclusion that while it might be highly desirable to teach virtue it could not be done. So it is with auditing: the mechanics can be taught. For example, a student can be taught how to check a voucher, how to check postings, how to prove accounts in total, how to check inventories, how to prepare clear and useful audit working papers and a number of other such valuable technical devices or processes.

There are, however, no rules which say how much testing and sampling is enough in a particular case. The rules for determining the adequacy of a system of internal control or internal audit are quite general and cannot be applied with rigid particularity to any specific case. In most auditing work the personal problem bulks largely. From one point of view we are auditing men; not books, records, or figures.

While this is hardly the place for a long disquisition on the subject, it seems appropriate here to issue a warning against an overuse of statistical methods in auditing or an undue reliance on

them. In auditing, the errors which we are most anxious to find are not those which would be subject to statistical tests. The really serious errors are the intentional ones. Careless errors may cause some distortion in financial statements but they are seldom serious enough to cause real monetary damage to a company. Inadvertent errors such, for instance, as paying an invoice twice, charging items to the wrong accounts, crediting receipts to the wrong customers and errors of that type, while annoying and troublesome are probably to be expected in most large organizations and can be guarded against without great difficulty. In any event, these are not the errors where the large sums of money are involved.

The classic frauds, from the old Kingston Cotton Mills case to the cases such as the Hatry case, Kruger and Toll, Ultramares, McKesson and Robbins, and other similar celebrated cases are all based on intentional, fraudulent errors and misrepresentations carried out generally over long periods and usually with considerable skill and subtlety. Most intentional errors and most frauds are of this type. Obviously, where the error is intentional and fraudulent we arrive immediately at a question of personalities.

No one can learn how to size up personal situations and problems in an auditing class. On the other hand no one can be a good and effective auditor unless he is fully alive to all of the personal characteristics and implications of his work. This is what cannot be taught as such. The study of the various subjects which have been listed under these which will develop an accountant's sense of method are a help in forming his sense of judgment but the only real way in which judgment of this sort can be acquired is through actual experience and actual contact with men and situations. I wish there were some way by which we could teach judgment but I am again forced back to the position that judgment cannot be taught any more than virtue can be taught.

In his dialogue with Meno, Plato points out that if virtue could be taught, virtuous men would teach their sons to be virtuous. He further points out how infrequently it happens that a virtuous or distinguished father has an especially virtuous or distinguished son and he says that if it were possible to teach virtue the father would undoubtedly have taught it to the son. So it is with the judgment required in auditing. To a certain extent it must have been implanted by nature. It can be developed and directed but it cannot be created where it does not exist in its embryonic form.

What has been discussed under the heading of method and the studies which are likely to develop the proper method in an accountant and his work are equally useful in developing judgment provided the basis for it already exists. This discussion of the nature of judgment may sound a little theoretical, perhaps a little highflown but I do not think it is. It seems to me to be a most urgently practical matter. To recognize what cannot be done in education is not admission of defeat or failure. It is merely an indication of the necessity of doing as well as possible with what can be done. Auditing is probably the most difficult and complex part of the public accountant's work and the teaching of auditing is undoubtedly the most difficult pedagogical problem which the teacher of accounting has to face.

This condition has been recognized by several schools. The internship programs, where a student intersperses actual experience with classroom work, give a student some idea of the practical problems he will have to face. Internship should be particularly valuable in the teaching of auditing.

### **Material**

The third requisite for the accountant is what I have called "material", that is, something on which to exercise his method and something to express in his technical language. The field of "means" and "method" is narrow but it must be

cultivated deeply, rigorously and thoroughly. It covers what the accountant must actually know. The last, the "material" is what he must know about. It is the Platonic distinction between knowledge and right opinion.

Turning again to the dialogue with Meno, which is so full of nourishment for every educator, we come to Plato's distinction between actual knowledge and what he terms "right opinion". Knowledge to Plato is something very real and definite; a man has seen or heard something; he has made something; he is the master of an art; he knows how to carry on a trade. Knowledge is something which has been proved by practice, by operation and is something which the possessor is sure of. The Platonic idea of knowledge covers what we think of when we say judgment, skill or a complete grasp of a subject or a situation.

Right opinion is a body of information about something or a number of impressions gathered from a variety of sources, any item of which might be untrue but which, all taken together, give a basis which, for practical purposes, is often as useful as knowledge in the Platonic sense. For example: I know that the City of London exists. I have walked its streets, seen its buildings, been lost in its fogs, and have had many experiences which make me absolutely certain that the City of London does exist. I have never been to Australia yet I have a strong right opinion that Australia does exist and I have a reasonably detailed idea of what I would find there if I ever travelled to that continent. The kangaroo and the platypus may not have come from Australia, Captain Cook may not have made his voyage, the gold, wheat and wool which are stated to have come from Australia may have been produced somewhere else. The troops which have fought in the first World War may not have been Australian, they may have come from somewhere else. Any one of these pieces of evidence may have been false but taken together the probability is so



strong that there is a continent of Australia and that the characteristics of it are about as I have them in my mind that, as far as any practical purpose is concerned, my opinion about Australia is just as good as my actual knowledge of London.

An accountant must actually know only two things: his means and method, but so far as his material is concerned he must know about, he must understand, he must have a right opinion of an immense number of industries, occupations, countries, products, technical and manufacturing processes and methods and social conditions. In fact he must understand or know about or have a right opinion of almost anything which touches his client's affairs in any way.

In his work in any one industry he is constantly running into the products and operations of many others. An accountant doing an audit of a cotton mill, for instance, must not only have a fair understanding of the cotton market, the different varieties of cotton and the different processes for converting the cotton, but he must know something about the machinery in the mill, local labor conditions, power supply, local taxation and a number of other such factors, any one of which may be determining in the future life of the enterprise, before he can be certain that he is correct when he says that the accounts which he signs fairly present the financial position of the company. If he is to go further into cost or organizational work he must have a much more intimate knowledge of the industry. None of this, however, means that he must know the industry in the sense that he could operate or direct a mill. He must know his own technique and method and he must understand the technical, manufacturing and business problems of his client.

No accountant can, of course, be familiar with every industry which he is likely to be called on to serve. He should, however, have a broad basic knowledge of industry which would

cover general economics, industrial history, the nature and uses of basic materials, transportation, communication, the nature and services of public utilities, commercial geography, the history of the industrial revolution and industrial development since that time and a basic understanding of the principal chemical and physical processes of industry. The accountant, thus equipped, will be able, when he is called upon to serve an industry unfamiliar to him, to find the specific facts on that industry without great difficulty and from his basic knowledge of materials, processes and the like he will be able to understand and absorb the information which he acquires.

There is little genuine information which an accountant may possess that will not eventually be of some value to him. Knowledge of fields as remote from accounting and industry as antique furniture, rare books or native Central American art may be of great value. In estate work, for instance, art objects often form an important part of the estate. The accountant could not and should not attempt to act as an appraiser but he should at least know that where an estate includes an number of old pictures, family furniture and old books, there may be something of great and unrecognized value among them and that it is the duty of the executor to have a proper appraisal made. The accountant may properly point out to an executor that he would be neglecting his duty if he failed to arrive at a fair value for any such property. It is also quite possible that an accountant may find knowledge of this sort useful if he had a practice which included, say, department stores which had departments of this nature. The range of information than an accountant might find useful is very wide.

However, while we are discussing useful, general knowledge for an accountant, we should also warn the budding accountant not to become a collector of what has sometimes been called "mental bric-a-brac". A good

example of "mental bric-a-brac" is the catalogue of attainments and knowledge in the song of Major-General Stanley in the "Pirates of Penzance", where he boasts, among other things:

"I know our mythic history, King Arthur's  
and Sir Caradoc's,  
I answer hard acrostics, I've a pretty taste  
for paradox,  
I quote in elegiacs all the crimes of  
Heliogabalus,  
In conics I can floor peculiarities parab-  
olous,  
I can tell undoubted Raphaels from Gerard  
Dows and Zoffanies,  
I know the croaking chorus from the Frogs  
of Aristophanes,  
Then I can hum a fugue of which I've  
heard the music's din afore,  
And whistle all the airs from that infernal  
nonsense Pinafore.  
Then I can write a washing bill in Baby-  
lonic cuneiform,  
And tell you every detail of Caractacus's  
uniform;  
In short, in matters vegetable, animal and  
mineral,  
I am the very model of a modern Major-  
General."

Among the more frequent types of "mental bric-a-brac" which are commonly collected are athletic records and achievements, the family affairs of movie stars and the doings of characters in the comic strips. There is no harm in any of these things and they are undoubtedly amusing and relaxing to many people, but they are not the type of general and miscellaneous information which the accountant will find most useful.

There is another field in which the accountant should be particularly well informed, and that is Government: State, Federal and Municipal. Every accountant, of course, must and will study the Federal tax laws, the regulations of the Securities and Exchange Commission and the regulations of the various public utility commissions and other administrative bodies which deal directly with accounts. These things are part of his means of operation. However, it is also necessary in these days for a successful practitioner to understand, in a practical way, exactly how legislation is originated and passed and how the various executive depart-

ments operate. At the present time and, in all probability, for some years to come, the accountant will be forced to take a keen interest in the fiscal, procurement and supply operations of the armed services. A businessman can do little without dealing directly or indirectly with the Government in some way and a familiarity with Government organization and functions is as essential to the accountant as to the businessman.

The range and possibilities of an accountant's education are, of course, limited only by the nature and scope of his work. What is discussed in this paper is the education of an accountant who will eventually be responsible for a broad and comprehensive public practice. So far as means and methods are concerned, I think there is no great difference between the requirements of a man in a limited or specialized practice and the requirements of a man responsible for a general practice. When we come to what I have called material there is a great difference. It may be that a man who intends, for instance, to specialize in taxation, or to specialize in a particular industry or in a particular branch such as cost accounting, may have use for much less of what is described as background knowledge than a public accountant should have.

When we are considering the question of how much education an accountant can reasonably make use of we must think of the eventual potential leader of the profession. Such a man will be one who, whether his practice be great or small, is responsible for a varied clientele and who is able to meet any demands which may be made upon him.

The treatment of education in this paper and the suggestions made in it are not of a technical pedagogical nature. There are many who could handle the practical applications much better than I, as I am without any direct experience in teaching. I am rather a consumer of accounting education as it has been applied to men we

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# Current Problems in Accounting Education

By EMANUEL SAXE, C.P.A.

*This paper discusses some fundamental problems now confronting those engaged in education for public accountancy: the desirability of establishing separate schools of accountancy; the asserted need for elevating accounting instruction to the graduate level; the amount of technical specialization which should be prescribed; the treatment of some currently noted deficiencies; and some of the major administrative and pedagogical problems of accounting instruction at the college level.*

IT is particularly fitting and proper that this First Annual Conference on Accounting Education should be held at New York University. Here, on July 28, 1900, with the help of the New York State Society of Certified Public Accountants, was established the first collegiate school of business with a specific course of study designed to meet the particular needs of persons

preparing to enter the public accounting profession.

In the half century that followed, the fledgling profession of public accountancy rapidly grew to full stature and maturity. It now occupies a most important place in our business community and economic life. Several factors have been particularly significant in this development,<sup>1</sup> particularly the growth of big business, the impact of heavier taxation, the shift in emphasis from the balance sheet to the income statement, the increased regulation of the standards of accounting practice (from both within and without the profession), the greater use of and reliance upon accountants' reports by the various "publics" into whose hands they come, and the special problems created by current inflationary tendencies.

To give you some indication of the extent of the growth since 1896, when the first CPA certificate was issued by the State of New York, by December 31, 1950, 14,473 certificates had been issued by the State of New York and 46,288 by all states and territories of the United States combined; and there were 6,325 members of the New York State Society of CPA's and 16,779 members of the American Institute of Accountants. These figures do not, of course, include those persons engaged in the practice of public accounting

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This paper was presented by Dr. Saxe at The First Annual Conference on Accounting Education held under the auspices of the Division of General Education, New York University, on October 19, 1951.

<sup>1</sup> "Milestones on the Path of Accounting", by Percival F. Brundage. *Harvard Business Review*; July, 1951; pp. 71-81 (First of 1951 Dickinson Lectures).

who did not hold the certificate of Certified Public Accountant.

During this entire period, accounting education has likewise experienced all of the phenomena usually associated with the infancy, development and growth of a new profession. In the beginning, there was no established course of study, there were virtually no text-books available, the pupils attended evening classes after the day's work, and the professors, drawn from the ranks of the profession, had no previous background of knowledge to draw upon with respect to the particular problems of classroom methodology or management in this new instructional area. The following comment of Professor Leon Brummer, the Secretary of the first Faculty of the School of Commerce, Accounts and Finance, at New York University is most revealing in this connection:

"The accounting knowledge of the students was so ungraded, the knowledge of the teacher and his ability to teach was so uncertain, and the confidence of the scholars, who were continually asking for instruction in higher accountancy, was so wanting, that nothing but the persistent efforts and the personal encouragement and glorious example of Charles W. Haskins kept the school from following in the footsteps of those schools which had gone before."<sup>2</sup>

Following a short experimental period with a two-year evening course of study, New York University soon evolved a three-year evening (or a two-year full-time day) curriculum leading to the B.C.S. degree. It was felt that the added three years of business experience of the evening scholars would compensate for the additional instructional load imposed upon the day student. This course of study was essentially technical in content (principally in the fields of accounting, commercial

law, finance and economics) and was designed to prepare the student for professional certification and practice. This curricular pattern was generally adopted and followed by other local schools engaged in the training of professional accountants until the late 20's, when the next important curricular change took place, namely, the development of a full four-year professional curriculum combining instruction in the liberal arts with business and professional education.

Undoubtedly, the primary reason for the change was the need for prospective compliance with the new section of the New York Education Law<sup>3</sup> which, on and after January 1, 1938, required completion of an approved four-year course of study at the collegiate level of all new candidates for the CPA certificate. At the suggestion of the Board of CPA Examiners, the additional prescribed curricular content was principally in the field of the liberal arts subjects, rather than in the technical area.<sup>4</sup> The State Education Department and the various schools readily accepted this viewpoint.<sup>5</sup> They apparently believed then that the modern collegiate school of business was in a unique position to meet the need for the kind of college education that would combine cultural and technical training, because it was so constituted as to maintain the proper balance between the liberal arts tradition and the specific requirements of preparation for a professional career.

Since January 1, 1938, the colleges maintaining approved curricula in Accountancy under this law have been constantly striving to improve their offerings and methods with consequent benefit to their students. However, a recent challenge by the New York State Education Department as to the adequacy of present day accounting

<sup>2</sup> "The Inception and Foundation of the School of Commerce, Accounts and Finance", by Leon Brummer, *The Journal of Accountancy*, Vol. XI, No. 4, February, 1911; p. 254.

<sup>3</sup> New York Laws of 1929, Chapter 261.

<sup>4</sup> "The Role of the State Board of Examiners in the Development of Accountancy in New York", by Walter N. Dean, *Fiftieth Anniversary Commemorative Yearbook*, New York State Society of CPAs, 1947; pp. 61-62.

<sup>5</sup> *Ibid*, p. 62.

education<sup>6</sup> has had several beneficial effects, one of which is the added impetus given to the careful study of some fundamental problems presently confronting those engaged in education for public accountancy. I now propose to discuss some of these basic issues:

**Shall there be separate schools of accountancy?**

In recent years, there has been quite a bit of discussion as to the desirability of setting up separate schools of accountancy.<sup>7</sup> I am opposed to this idea because I do not believe that structure, alone, can give proper meaning and direction to technical education. It is my view that all accounting education—whether for public practice, use in private industry, or application in governmental service—has a large common, basic core which may be profitably pursued by all students together until they reach the split-off point in their academic careers where their particular specialty interests become apparent and must be served. In my opinion, the basic problem is rather the establishment of a proper course of study which will adequately prepare the student for his professional accounting career. Once this has been accomplished, I do not see that there is any advantage in providing this instruction in a separate school of accountancy as against its inclusion as one specialized curriculum (along with others) in a collegiate school of business. Furthermore, should a student of public accounting desire to change his field of specialization, or a non-accounting major decide to enter upon the study of accountancy, this may be accomplished in a collegiate school of

business with a minimum loss of time and credit to the student.

**Shall the level of accountancy instruction be graduate rather than undergraduate in character?**

A corollary of the preceding question with respect to the desirability of separate schools of accountancy is the asserted need for advancing the instructional level so as to make it graduate in character. I agree with the writer who recently expressed himself in the *Journal of Accountancy* to the effect

"that for many years to come, most professional accountants will be drawn from the colleges rather than from graduate schools."<sup>8</sup>

I believe that sufficient professional training can be coupled with an adequate liberal arts background in a normal four-year curriculum in an undergraduate school. I do not mean to imply that additional study beyond this basic prescription is unnecessary. As a matter of fact, further specialty instruction might well be pursued by the student *after* he has completed the basic course of study, either through additional courses at the undergraduate or even the graduate level. But this brings us to the next pair of questions.

**How much specialization should be prescribed? How much of the liberal arts should be included?**

These weighty questions are the very ones which recently precipitated the current re-examination of our accounting education by the study committee constituted under the auspices of the New York State Education Department.<sup>9</sup> I have already expressed

<sup>6</sup> *Meeting to Discuss the Problems in Certified Public Accountancy*, held at the School of Business, Columbia University, January 12, 1951.

<sup>7</sup> "A Pattern for Professional Education", by George W. Robbins. *The Accounting Review*, Vol. XXIV, No. 4, October, 1949; pp. 392-402, at p. 401. See, also, the additional references cited in footnote 7, at the bottom of page 401.

<sup>8</sup> "Courses of Study Leading to CPA Certificates Should Not Be Narrow, Nor Fixed by Law", by Harry C. Zug. *The Journal of Accountancy*, Vol. 92, No. 2, August, 1951; pp. 175-179, at p. 176.

<sup>9</sup> This was an outcome of the meeting noted in footnote 6, *supra*.

my views with respect to the contents of a college curriculum for the training of public accountants at some length. They will be found in an article entitled, "Education for Public Accountancy" originally appearing in *The New York Certified Public Accountant*, for November, 1946, and subsequently reprinted in *The Accounting Review* for January, 1947.

Suffice it to say by way of summary, that I would allot approximately one-half of the instructional time to a broad, liberal education which would accomplish the development, disciplining and harmonizing of a student's general interests. I would allocate another quarter of the curriculum to offerings which would cover general business education. The final quarter of the curriculum should, in my opinion, be devoted to the specialized training required of the candidate in preparation for his career as a public accountant.

To my mind, the proper way to proceed would be to have those charged with the measurement of professional competence set reasonable objectives, and then to have the educators decide the manner in which they shall prepare their students for the attainment of these objectives. I believe that the details of carrying out the educational process should be left to those who are particularly skilled at it, namely, the educators.

At this juncture I should like to accent a view which I hold rather strongly: I am very much opposed to the *prescription* of too much specialized training in accountancy subject matter. By this I do not mean that I am opposed to the acquisition of specialized knowledge on the part of the student; rather do I mean to say that any particular student should be free to choose the area to be covered by him in his additional accountancy studies beyond the

necessary minimum prescription. This choice can be intelligently made by him on the basis of his own particular needs, the type of work he may be or expects to be engaged in, and the prospects for the future use of such additional training by him. Some of these courses may be taken as *elective* work while an undergraduate; or they may be pursued later at the postgraduate level.

An undergraduate curriculum which would attempt to specify too much ground with particularity and embrace all the branches of the professional field of accountancy, might well be the target of a remark attributed to Thoreau,

"Yes, indeed, it contains all the branches and none of the roots."

We must never forget that additional courses in and of themselves will never replace the life-long learning that comes from good teaching of basic fundamentals.

The proper balance between a liberal arts background, general business education, and specialized training for accountancy will necessarily result in broad intellectual development, rather than narrow technical proficiency. (Mr. Peloubet will discuss this at some length later, and I am in full agreement with his views.) Curiously enough, this view was recently expressed by a well-known English educator against a background where, for so many years, the apprenticeship system of training professional accountants has prevailed. He said,

"And on this point there is no divergence of opinion between the universities and the profession; to judge from views expressed by delegates to the recent joint conference at Oxford, accountants want our teaching to be as broad and educative as possible."<sup>10</sup>

Much the same view was recently expressed on this continent as follows:

"Education for accountancy is essentially a method of training minds for account-

<sup>10</sup> "The Teaching of Accounting", by W. T. Baxter. *Accountancy* (England), November, 1947; pp. 257-259, at p. 258.



any, and not a process of injecting knowledge through a hypodermic needle."<sup>11</sup>

One of our well-known contemporary philosophers agrees for a different but equally valid reason:

"Vocational education conceived as job-training represents the greatest threat to democratic education in our time. It is a threat to democracy because it tends to make the job-trained individual conscious only of his technological responsibilities, but not of his social and moral responsibilities. He becomes a specialist in 'means' but indifferent to 'ends' which are considered the province of another specialist."<sup>12</sup>

#### What can be done about some currently noted deficiencies?

(a) *Written and oral English:* An oft-repeated complaint is that our graduates are quite deficient in both written and oral English. A report on the recent survey completed in 1951 by the Committee on Education of the New York State Society of CPA's,<sup>13</sup> which polled the opinion of representative CPA's concerning the educational qualifications which prospective employees should have, emphasized the above-noted deficiency. A similar survey, conducted under similar auspices in Illinois, produced the same result.<sup>14</sup>

Undoubtedly, this deficiency has much deeper roots than at first appears. The general softening of the educative process at both the secondary and elementary levels, which has been taking place during recent years, is probably accountable for much of the difficulty in this area which the colleges are now experiencing. It is much too much to expect of the colleges that they should re-do the work which has not been properly done at the lower educational levels. Remedial work should, nevertheless, be required in those cases

where marked deficiencies are noted, and, in addition, every instructor should require that the written and oral English usage of his students be maintained at an acceptable standard. Indeed, in areas of practice where the expression of opinion is called for frequently (as in Auditing) an even higher standard of acceptable English expression might be required by the instructor. I think that we will readily concede that all the technical information in the world is of no value to the accounting practitioner unless he possesses the means of communicating it accurately, meaningfully and succinctly to those who have engaged him to secure and report on the required information.<sup>15</sup> All educators must hold the line resolutely on this score.

(b) *Inability to think clearly or to make decisions:* Another deficiency currently asserted with respect to recent graduates is that they do not possess the ability to think clearly; also, in similar vein, that they are unable to gather together data and arrive at a decision with respect thereto. Of course, the process of thinking cannot be taught *per se*. All that can be done at college, or anywhere else, is to afford the student an opportunity to engage often in the thinking process and to give him the means whereby he may judge the validity and relevance of the conclusions reached by him or others. To that end, I believe it to be extremely important that all instruction be conducted along lines which will stimulate the intellectual process. I would even go so far as to require formal instruction in Logic, so that students may have training in the determination of the adequacy or probative value of different kinds of evidence. This is par-

<sup>11</sup> "Theory and Practice in the Training of Accountants", by F. G. Winspear. *The Canadian Chartered Accountant*, December, 1947: pp. 350-360, at p. 358.

<sup>12</sup> *Education for Modern Man*, by Sidney Hook. The Dial Press, New York, 1946; pp. 156-157.

<sup>13</sup> The full text of this report appears later, beginning at page 46.

<sup>14</sup> "Preparation for the Profession", by Hiram T. Scovill. *The Illinois CPA*, December, 1950: p. 40.

<sup>15</sup> See the pointed "Letter to the Editor" in this connection by Nathaniel F. Glidden, Jr., in *The Journal of Accountancy*, August, 1951, Vol. 92, No. 2; p. 158.

ticularly important to future auditors, who will be largely engaged in rendering audit reports or opinions.

Likewise, the ability to make decisions is not a faculty which is easily acquired, whether in college or in the outside world.<sup>16</sup> Although the ability to make decisions depends in large measure upon one's basic mental habits and personality traits, a resourceful instructor may help to sharpen and polish this manifestation of executive ability by the expression of personal example and by channeling the student's activities into proper extra-curricular activities where considerable developmental opportunity exists.

The correction of this deficiency is particularly important to our future accountants, since all informed people will agree that accountants now devote their time primarily to the interpretation of facts and the solution of problems (which, of course, involve clear thinking and the decision-making ability) rather than to the more routine tasks of checking and balancing.

(c) *Lack of sufficient practical training at college:* A third asserted deficiency with respect to present day education for accountants is the lack of sufficient training afforded students in such practical subjects as Auditing and, perhaps, Taxation. This is merely another way of saying that when the student has completed his accountancy course he is not fully prepared for the realities of practice. In justice to the schools, I think it only fair to say (as did Robert M. Hutchins) that,

"In . . . business and other . . . professional schools, the conditions of practice do not exist, and hence the student cannot learn to practice."<sup>17</sup>

To use Auditing as an illustration, I think it is fair to assume that the student ought to learn everything about

the theory of Auditing that can be taught at college, and that he ought to be exposed to simulated reality in the classroom through the use of auditing practice sets or, alternatively, through the use of books and records of defunct concerns. But to obtain actual exposure to real auditing situations, a form of student internship is necessary.<sup>18</sup> I am heartily in favor of extending the college curriculum to include this form of educational experience whenever it is possible to do so.

However, such a project needs the most careful planning and the closest supervision, lest it develop into a sheer waste of time for all concerned. The advance planning should carefully delimit the precise area and level of the field of experience which it is desirable for the student to explore during his internship, as well as specify the time allocations involved therein. The liaison work of supervision should be carried out by an instructor possessing a sufficiently balanced background of theory and practice to enable him to guide, evaluate and improve the results in any individual case. It goes without saying, that a successful internship program cannot be carried out without the cooperation of the profession, in whose accounting offices it will take place. The program must, of course, be carefully integrated with the other instructional work; it must not interfere with other college work being carried on by the student at the same time. Although the colleges working on the "quarter" system are generally better adapted to the internship program, it is not impossible for those operating on the semester plan to work it into their courses of study. This is particularly so in metropolitan areas where the student might perform his internship work during the day and, perhaps,

<sup>16</sup> "Developing Power for Decision in Business Education", by J. Don Miller, Jr. *Advanced Management*, March, 1948, Vol. XIII, No. 1; pp. 29-32.

<sup>17</sup> *The Higher Learning in America*, by Robert Maynard Hutchins. Yale University Press, New Haven, 1936; pp. 50-51.

<sup>18</sup> See "Public Accounting Training Programs for College Students", by C. Rollin Niswonger. *The Ohio Certified Public Accountant*, Summer, 1951, Vol. IX, No. 3; pp. 16-20.



carry other classes in the evening sessions of his school or, perhaps, on Saturday morning. This is an idea worthy of careful exploration and study, for in it lies the clue to the attainment of the close linkage between accounting theory and practice so necessary to obtain the best professional preparation.

### The professional faculty

All teachers at the college level must do two things: They must help their students to bridge the period between youth and maturity, as well as the gap existing between the college and the outside world.<sup>19</sup> In addition, the teacher of a professional subject must impart sufficient technical knowledge and skill to enable his students to qualify for entrance into their chosen professions.

The successful college teacher of accounting must be more than a competent professional specialist, constantly in contact with the theory and practice in his field. He must have common cultural bonds with other educated persons. He must also possess the ability to teach and thus facilitate the student's absorption of information, knowledge, principles and relationships, as well as his acquisition of skills, attitudes, interests and ideals. He must be sufficiently alert and stimulating to pace the bright student, as well as patient and understanding enough to encourage the stragglers. That is not an easy order to fill these days, particularly in the light of the attractive offers which such men are known to receive from other sources, and it constitutes one of our most serious educational problems. Unless such men continue to be attracted to teaching posts, the level and quality of professional instruction will surely deteriorate.

Another problem in this connection is the proper assignment of instructors

to courses. It is common practice in many schools to consider first-year work in accountancy so easy that almost anyone can give it and, therefore, to assign these classes to graduate students with little or no experience in practice or teaching. To my mind, this is a fundamental mistake. The grounding which the student receives in his first-year course is the foundation upon which his entire accountancy education is built, and unless the very best men are assigned to provide the instruction in this course, much serious damage may be done to a student's later career.

Another important matter of concern is that of keeping the good instructors up-to-date. As one educator puts it,

"The only ideal solution is to appoint as professor of accounting a pair of Siamese twins, one-half to labor as a teacher, and the other in practice."<sup>20</sup>

A practical way of meeting this problem is to provide sabbatical years for teachers—say every five to seven years—to enable them to go back into practice and thus keep up-to-date with the latest methods and standards of the profession. I strongly urge that this procedure be adopted in those colleges where it is not possible for instructors to maintain current contacts with accounting practice. It is my belief that both accounting and business firms have and will readily cooperate in such undertakings.

### The materials of instruction and methods of teaching

In a previous part of this paper I have adverted to a situation which is known to exist today, namely, the inability of many students to use written and oral English effectively. Sad as this may be, it is a distinct reality and one that must be taken into account by any teacher who wishes to be successful in his art.

Instructors must be extremely care-

<sup>19</sup> *The Art of Teaching*, by Gilbert Highet. Alfred A. Knopf, New York, 1950; pp. 55, 57.

<sup>20</sup> W. T. Baxter, *op. cit.*, p. 258.

ful to make certain that they do not talk above the heads of their students, and that the students fully comprehend the import of the language used by their teachers. Texts must be selected today on the basis of the appropriateness of the language level of the text to the language level of the students using it. Graphic methods (in the form of diagrams, illustrations, flow charts, etc.) must be given fuller play in textbooks in order to meet the challenge implicit in this situation.

Then, too, a resourceful teacher will use all of the audio-visual aids which he can secure—films, film strips, slides, an opaque projector—all of which are particularly helpful in conveying meaning to those students who may have language inadequacies. It is true that a picture is often worth a thousand words.

Another point to be remembered in this connection is that while most accounting texts at the college level are sound enough from the viewpoint of accuracy of content and adequacy of coverage, some of them do not meet the test of pedagogical excellence. Too often, indeed, is the subject matter "thrown" at a college student-reader for him to puzzle out the connective tissue of the author's unstated reasoning.

College teachers who have no previous contact with educational theory and methods should always be encouraged to pursue additional study along these lines. How often have we heard it said sadly but truly that a teacher knows his field very well, but simply cannot teach it!

### **The selection of pupils**

One of the disadvantages of undergraduate instruction in accountancy, as opposed to graduate instruction, is that the selection of pupils cannot be made as advantageously at the undergraduate level. This is an important consideration and must always be kept in mind. However, the use of such achievement and aptitude tests as had been developed by the American Institute of

Accountants will help to overcome the difficulty cited. Students who definitely have no demonstrated aptitude for the field of accountancy should be discouraged from entering it at the outset. Those who later fail to maintain a satisfactory rate and standard of progress in their studies should be promptly guided out of it. Marginal and mediocre students should be encouraged early in their academic careers to change over to another specialization group. Only in this fashion will the type of student that the profession needs be sifted out for ultimate completion of his accountancy education.

### **The CPA examination**

While we should not direct our instruction solely towards preparation for the CPA examination, we cannot be oblivious to the fact that our graduates must pass it in order to practice as Certified Public Accountants. I am of the opinion that the accounting student who has been well prepared at college should have no especial difficulty with this examination and that, therefore, it should present no new problem or hurdle to us as educators.

However, every means and opportunity should be taken to improve the validity, objectivity and reliability of the CPA examination as a selective measure of professional competence. Much remains to be done in this area by way of research and study and, as you know, the problem is now being considered by the New York State CPA Examination Study Committee, which is planning a comprehensive study designed to elicit all the facts having a bearing upon the situation.

\* \* \*

These, then, are some of the more important problems confronting those charged with the education of public accountants today. I hope that I have stimulated your thinking about them and that the combined efforts of all interested parties will soon produce an acceptable solution to most, if not all, of them.

# Accounting Internship Programs

By WILLIAM J. VON MINDEN, C.P.A.

*The experience of the School of Business Administration of Rutgers University with its Internship Program in Accounting during the past six years is herein reported. The present program is described and evaluated.*

SIX years ago, the School of Business Administration of Rutgers University started its Internship Program in Accounting. We were not pioneering, because other schools across the country had been using this plan prior to World War II. However, most schools now using the plan did not start until after the war.

During that first year, the plan was administered by the Dean's office because an effort was being made to develop internship programs in all areas of concentration. Our school is an upper two-year level school, requiring for admission the satisfactory completion of two years of study in an accredited liberal arts college. The plan permitted any junior (first-year student in the School) to elect the program. Frankly, that first year was almost disastrous to the plan. Many students with average-to-poor grades elected the program, with the result that some of them made a very poor impression on their employers. Fur-

thermore, they did not have a sufficient number of credit hours of accounting before serving their internship. When the full light dawned on us, two steps were taken; first, responsibility for the administration of the Accounting Internship Plan was transferred to the Chairman of the Department of Accounting, and second, the Chairman of the Department of Accounting interviewed the cooperating firms to determine what might be done to strengthen the program. These interviews resulted in the following changes:

1. Students were not admitted to the program until their senior year.
2. The accounting course requirements for admission to the program were increased to twenty-two hours, including Introductory, Intermediate and Advanced Accounting and Auditing.
3. All students were screened academically before being admitted to the program.

During our second year of the Internship Program no new students were admitted, and only those seniors who had received an invitation to return to the firms which had employed them during their junior year were officially in the plan. We do permit students to secure their own employment during the internship period with firms of public accountants not included on our list of cooperating firms.

Now, let us more closely examine exactly what we do. Our school is on a three-term basis, the first term begins early in September and ends at Christmas; the second term begins early in January and ends the middle of April; and the third term begins the middle of April and ends late in July. We are

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on an eleven-month basis. Class hours are sixty minutes instead of fifty-minute hours. Therefore, the student receives semester hour instead of quarter hour credits. The student who enters our school in September, 1950, graduates, if he has satisfied our requirements, during April, 1952. If he is in the Internship Program, which permits him to work from December 26, 1951, until April, 1952, he returns to the classroom April 15, and completes his studies about the end of July, 1952. Your reaction may be that this is rather unusual and practically tailor-made for an Internship Program. It is. Insofar as we know, there are no other schools on this basis. However, there are disadvantages. First, the cooperating firms are required to employ the students for a period just short of four months. In most instances, they could release them about March 15 or even March 1, instead of April 15. Second, our interns are never graduated with their classes at the regular June Commencement. They must wait until the fall Commencement. The quarterly plan is better in many respects. But what about the semester plan? There are more schools with Internship Programs on a semester basis than any other basis. How is it done?

On the semester basis, there are about two weeks of instruction between the Christmas holidays and the semester examinations. The examinations are followed by a registration period and, frequently, there are only three weeks of class sessions to the first of March. Some schools permit their interns to leave the classroom at Christmas time and return in time to attend classes at the beginning of the second semester or one to three weeks late. This method creates a few problems. They are solved in some cases by special examinations before leaving or make-up examinations upon returning. Special assistance for the students when they return to the classroom is necessary in order to make up the work missed during the second semester.

Another possible solution might be special sections which meet a greater number of minutes each week so as to equal the clock hours of the regular sections. One college solves this problem by requiring all senior students to secure employment during the early months of the year. Others solve the problem by having their interns out of the classroom during the entire first or second semester, and one school has arranged internships in the field of industrial accounting during the summer months. This would be difficult to arrange if the internships were in public accounting. The student would not get a true conception of the work of the public accountant during the relatively quiet months of the summer. At the American Accounting Association meeting in Denver, one practitioner stated that the student received a better introduction to the field of public accounting if his internship was during the busy early months of the year. Many schools with Internship Programs have them in both the fields of public accounting and industrial accounting. This year for the first time we are arranging internships in industrial accounting. During the past year the Education Committee of the Newark Control of the Controllers Institute of America and our school completed a plan for such a program.

The next part of the problem is when and how are students selected, how are interviews arranged, and where are they held. At the close of the third term of the junior year, a careful examination is made of each accounting major's grades in all courses in the School of Business Administration. If a student has a 2 in all his accounting courses, a 2.5 average in his other courses (no 4 or 6 grades permitted), a high verbal percentile on his American Institute of Accountants Orientation Test, and at least an 80 percentile on his First Level Achievement Test, he receives a letter during the month of August advising him that he has been selected for the program. He is told that if he desires to enter the program,

## *Accounting Internship Programs*

he must so state when he registers for the first term of his senior year. Early in October, a sheet is prepared which lists the names of the cooperating firms and the students names, and three interviews are scheduled for each student. A letter is then addressed to the cooperating firms giving the student's name, address, and his scholastic, Orientation and First Level Achievement Test records. The students are then notified by the University placement office of the names and addresses of the companies they are being sent to as well as the names of the interviewers. They are told to telephone for an appointment. Some schools arrange for interviews on campus, but we believe the student benefits by having the interview at the firm's office. An orientation session is held during October at which both the Placement Officer of the University and the Chairman of the Department of Accounting attempt to prepare the students for their interviews.

Offers of employment are mailed by the firms directly to our placement office, with a copy to the Chairman of the Department of Accounting. Many students will receive three offers from the three interviews, but we make no effort to sway them in their decisions. Some students do not receive a single offer. If the student receives no offers, he registers for the second term and continues his schooling along with those not in the program.

Some schools select the students and assign them to specific accounting firms. The firms may accept or reject the student assigned, but will have no opportunity to make their own selection. Other schools leave the entire problem of screening and selection to the accounting firms.

The question frequently arises as to whether the intern should receive credit for his work experience. Many schools do grant credit, requiring the student, however, to prepare a comprehensive report when he returns to the classroom. We do not grant credit.

More and more schools are starting Accounting Internship Programs because of the advantages to the students. Let us examine a few of these advantages:

1. The student has an opportunity to decide whether he wants to enter the field of public, industrial or administrative accounting. There is no substitute for actual experience. We may try to advise him through a guidance program, but he will know better whether or not he wants to enter one of these fields of accounting after three to four months of actual work experience.
2. If he is successful, he is assured of a permanent position when he graduates.
3. If after working several months he decides against entering the field of accounting in which he interned, he has had experience which will be helpful in securing a permanent position in another field of accounting.
4. If he decides to enter the field of public accounting, he has accumulated several months toward the experience requirement for a Certified Public Accountant's Certificate.
5. Students realizing they have an opportunity for employment under the Internship Program, have a seriousness of purpose which is reflected in all their studies.

The cooperating firms also benefit from the Internship Programs as, for example,

1. They secure competent part-time help during their busy season. The students are anxious to secure a permanent position and therefore make every effort to do a good job.
2. They have an opportunity to observe the student's work. An attempt is made to have the intern work under several supervisors in order to secure opinions concerning the advisability of offering permanent employment.

(Continued on page 55)

# Accounting in the Engineering School

By ERNEST H. WEINWURM

*Accounting has a proper place in the engineering curriculum, concludes this author, but it should be taught from the viewpoint of understanding accounting techniques and methods rather than of being able to apply them. A comprehensive, combined program of studies in both engineering and accounting is suggested as a long-range development of a type of education which might lead toward improved methods of industrial management.*

**I**N discussing accounting education for engineers, two major problems will have to be considered. First, why should future engineers study accounting at all? Second, (provided the answer is in the affirmative) what should be the scope and method of an accounting curriculum fitted for the peculiar requirements of engineering practice?

The present paper proposes to present a brief survey of some of the related pertinent questions. Following an analysis of the two major problems, an attempt will be made to offer an outline for a possible, long-range, comprehensive solution, which would look toward a much closer integration of those two professional fields.

## Accounting and the Engineering Curriculum

Anybody familiar with the thinking and attitudes of professional engineers

will agree that there is an urgent need for deciding the first question, as well as for a clear statement of reasons, requirements and methods regarding the second. Probably a majority, and perhaps a large one, of practicing engineers never had any education in accounting. Many know little or nothing about its techniques and potential applications in their present activities. There is a widespread feeling that little benefit may be derived from including accounting into an already overcrowded engineering curriculum, or from expanding present inadequate facilities. On the other hand, a growing number of engineering colleges offer accounting curricula of various sizes as a required subject for all students, or for those in particular departments. Others offer accounting courses as electives.

As pointed out before, those favoring accounting as part of an engineering curriculum or expanding that curriculum will have to carry the burden of proof on why such a measure would tend to improve the usefulness of engineering graduates for their future professional work.

## Reasons for Including Accounting in the Engineering Curriculum

Over the years, there has been a significant shift in the evidence which was offered in support of required accounting courses for engineers. This shift sheds an interesting light on the gradual changes in the techniques and aims of both engineering and accounting.

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Half a century ago, Dr. Alexander C. Humphreys, the second President of Stevens Institute of Technology made accounting a part of his new curriculum in "Economics of Engineering," and it has remained there ever since. In explaining the reasons for his unprecedented innovation, President Humphreys called attention to the importance of accounting in connection with financial decisions regarding investments and new projects. Engineers would be called upon to serve as experts in determining their practicability and profitability and they should be able to understand and use accounting as the preferred "language" of financial leaders. The notes prepared by President Humphreys for his classes include both lectures given by himself and other experts as well as reprints of technical articles which he considered significant. Apparently no textbook was available at that time which he considered worthwhile using.

It is interesting that the strongest motives for teaching accounting in engineering schools today were not even mentioned by Dr. Humphreys, for the simple reason that they were hardly known or used then. Nowadays emphasis will be given to the increased role of accounting for management in general as well as cost and production control. Financial considerations will have only a minor part, if any.

Accounting has become a major tool of management since the First World War. This has become most clearly apparent in the enhanced stature of the chief accounting officer or comptroller. His position has grown in progressive companies from that of a minor staff official to one of a highly regarded member of the top management team. This key function has been well described in the study on "Management Accounting," by the British team of experts who visited this country in 1950 and whose report has found much attention all over the world.

But this is only one aspect of the

picture. Paralleling the expansion of industrial accounting into management and production, has been the growth of the industrial engineers as a particular and important group of the engineering profession. It is well recognized that the job of the industrial engineer requires close cooperation with the industrial accountant. This fact alone should have answered the question of the place of accounting education for engineers in general, and industrial engineers in particular quite a long time ago. However, things have not developed so smoothly in practice and human beings do not always follow the "obvious path."

#### **Mutual Cooperation to Replace Misunderstandings**

As a matter of fact, a considerable gap is still separating industrial engineers and industrial accountants. Of course, there are numerous exceptions of splendid and successful cooperation and mutual understanding. But the situation is rather unsatisfactory in many manufacturing companies.

Numerous industrial engineers are still unfamiliar with accounting methods and the assistance they could get from the proper use of accounting data and methods. Whenever industrial accountants gather and discuss their problems, many complaints will be heard regarding lack of cooperation and understanding for their work. But more often than not, they will have to blame themselves for their inability to sell their services and possible contributions to those who may benefit from them, if they only knew how to use them.

Therefore, existing doubts regarding the need for accounting training for engineers should be easily dispelled and should gradually disappear if only the industrial accountants would take their educational mission seriously. They also will have to make contributions of their own in trying to improve their grasp and understanding of engineering problems, both in general and with re-

gard to the particular conditions in the plants they are associated with.

The deficiencies in the professional education of industrial accountants are well known but they are outside the scope of the present paper.<sup>1</sup> But how can you expect engineers to be interested in accounting if they find so many accountants absorbed in their paper work and making little effort to familiarize themselves with production procedures and problems which should be an indispensable part of their training, if they want to turn out reports which are useful to industrial engineers and plant management?

### **More Attention Should be Given to the Special Needs of Engineers**

Those who have been trying to expand the scope of accounting education in engineering schools have been seriously handicapped by a lack of specialized curricula and text material.

It should be readily apparent that programs designed for the training of professional accountants may not be the best means of providing engineers with an understanding of accounting techniques and their application for managerial planning and control.

Yet if the available textbooks reflect correctly the techniques used in teaching accountancy to engineers, the contents of those courses represent still the equivalent of a "first-year course" in accounting which is designed to acquaint future accountants with the fundamentals of their profession.

Perhaps it is significant that a recent accounting text prepared by three accounting instructors of Massachusetts Institute of Technology, seems to avoid any particular concessions to the engineering students for whom it is apparently designed in view of the position of the authors.<sup>2</sup> This may well

reflect the policies of publishers who are naturally interested in the broadest possible market, and who are well aware of the limited number of accounting courses for engineers offered at the present time.

Yet it is worth mentioning that some recent textbooks including the one referred to above, make an attempt to reduce the amount of purely technical and formal material in favor of more extended discussion of more fundamental accounting problems, such as income determination, valuation, etc. This new trend provides an incidental help for those preparing specialized curricula for engineering schools.

The principal problem faced in this connection refers to the need for condensing the traditional material as much as possible in view of the strong competition for the students' limited time by the science departments, whose field is constantly expanding.

I have struggled with that problem for a number of years and have tried out various methods and techniques of eliminating material which I considered less important from the standpoint of engineers, so that more time would be available for topics significant from a management and control standpoint.

I should like to repeat the statement which I made a number of times before, namely, that the aim of accounting education for engineers should parallel an effort to gain a reading knowledge of a foreign language, rather than the ability to speak it. The difference in time and effort required to reach either one of those goals is very great. What engineers need is an understanding of accounting techniques and methods, rather than ability to apply them. The latter will be left to the professional accountant.

<sup>1</sup> I should like to call attention to two recent articles dealing with this subject, "What Should the Industrial Accountant Study?" by Dr. Thomas A. Budd, and "Do Our Schools Turn Out Industrial Accountants?" by George J. Kalcik. Both papers appeared in the September, 1951, issue of the Bulletin of the National Association of Cost Accountants.

<sup>2</sup> "Accounting—A Management Approach" by Ronald H. Robnett, Thomas M. Hill and John A. Beckett. Chicago, 1951. Richard D. Irwin, Inc.



### Survey of Some Present Curricula

I have deliberately refrained from presenting statistical data on the quantity and quality of accounting instruction as now provided for in engineering schools all over the country. Without a thorough study of course contents and methods of instruction, such data (which are usually taken from course descriptions and catalogs or from replies to questionnaires) may be often misleading in view of the great variety in course titles, classifications, and descriptions.

Instead, I should like to talk primarily about the situation in the institution I am particularly familiar with, and about my own experience in trying out various methods of instruction. I shall also make a few brief references to the conditions in our host institution.

Stevens Institute, as I mentioned before, has given accounting instruction to all its undergraduates for more than fifty years. Naturally the course content has changed from time to time. As a matter of fact, I have spent a part of my recent summer vacation to "refurbish" the notes on cost accounting with a view to give greater emphasis to managerial aspects and applications. A similar improvement job with regard to the notes on general accounting was done by Dr. Arthur Lesser, Jr., Chairman of the Department a few years ago.

One term of the Senior Year (three hours a week) is earmarked for the required accounting course, equally divided between general and cost accounting. The results have been quite satisfactory on the basis of my own experience in the Graduate School with students who had taken that course in previous years.

In the Graduate School, we started out with one single course some years ago. We have gradually expanded our offerings until they now include a complete three-year curriculum. The first year course in financial and cost accounting is required of all the students working for a degree in the department. Special sections are provided for stu-

dents with and without previous accounting training. The ratio is about forty to sixty.

The advanced courses are required for students specializing in production management and control. The second year offers courses in standards and budgets while the third year's course reviews the applications of accounting and statistical techniques on problems of both top management and plant management in planning as well as cost and production control.

Our experience has been quite up to expectations, but more time will be required for a final judgment of results after unavoidable shortcomings have been gradually eliminated and necessary improvements made. We are most eager to have outside experts examining our curriculum and giving us the benefit of their own ideas on this subject.

I should also like to mention another novel experiment we have just embarked upon at our Dover, N. J., branch which we are conducting primarily for students from the near-by Picatinny Arsenal of the U. S. Army. There we try to condense our three-year curriculum, as described before, into a one-year course with particular emphasis on the peculiar requirements of a government-operated production unit. If this experiment should be as successful as we hope (we have stressed its experimental character throughout) it may open some important new vistas toward achievement of the final goal which has to be *some type of accounting education for every engineer*, so that he may be able to appraise the usefulness of accounting techniques for his professional work. However, more extensive accounting instruction will have to be required of industrial engineers who specialize in management and production problems.

It is at this point, where I feel that the New York University School of Engineering is not going far enough. Even those students who are specializing in industrial engineering are getting

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only one term of "Cost Control" and no fundamental accounting training at all. The great majority of engineering students do not receive any accounting instruction and will never have an opportunity to make up that serious deficiency in their professional training.

It is my considered opinion that you cannot pick out some particular parts from an integrated accounting curriculum and present them to the students to support some special problem of cost and production control, although this procedure has been used in many schools and by some prominent writers. In order to evaluate and apply properly any particular accounting technique you have to be familiar with their broad implications and limitations, or your conclusions may well lead you far astray and may discredit both your own efforts and the techniques themselves. Therefore, I should oppose all such short-cut methods as poor and often dangerous substitutes for a real and comprehensive accounting education, though it may be stripped down to the bare essentials.

#### **A Suggestion for the Future**

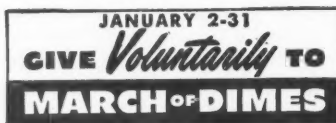
We are concerned here with professions where vigorous efforts toward improvements are made in many places, where things are very much in flux, and where almost anything may happen in the years to come. This encourages me to offer a suggestion which may appear startling to many of you just as it appeared to me when it first crossed my mind. Yet, I felt unable to avoid the conclusion that it represents a logical goal and climax of the efforts

to bring about a better understanding and improved cooperation between industrial engineers and industrial accountants.

What I have in mind is a brand-new curriculum which would combine the two fields into one, embodying the major features of both.

This curriculum may well start off with a year or two of basic science and engineering subjects. Courses in management, industrial engineering, accounting would predominate in the junior and senior year. Perhaps it may turn out to be unavoidable to add on another year of full-time study leading to a Master's degree to complete the curriculum. Practical plant experience should be required and may well be combined with part-time evening study during the later parts of the curriculum. (We have found the practical experience of our graduate students most helpful in reaching our goals of instruction.)

It would be for a large institution, like New York University, to try such a program which would go beyond the capacity of a specialized college like Stevens. I consider it a good augury that New York University is going to have as its new Chancellor a professional engineer and successful head of an engineering college. He may well have the vision to combine the extensive human and material resources of the Schools of Commerce and Engineering for a venture that may prove to be a historical one in the development of a type of education which might lead toward improved methods of industrial management.



# Teaching Accounting in the Law School

By MIGUEL A. DE CAPRILES

*This paper summarizes the reasons for the inclusion of a course in accounting in the law-school curriculum and then proceeds to outline the objectives and the content of such a course, as offered in the New York University School of Law.*

## 1.

FOR many years, the better law schools in the United States have recognized the fact that an understanding of accounting concepts and procedures is essential to the study of law in the modern pattern. In certain subjects, such as corporations, public utilities, and taxation, the relation between law and accounting is obviously very close; it is impossible in corporations to discuss legal rules without constant reference to assets, liabilities, capital, surplus, and reserves; or in public utilities without an understanding of property valuation, operating expenses, and the rationale of uniform accounting systems; or in taxation without an analysis of the concepts of income and expense embodied in the Internal Revenue Code. And the relationship is also important in the orthodox courses on contracts, trusts, evidence, damages, trade regulation, and perhaps others.

There are two obvious ways of meeting this problem: (1) to require a knowledge of accounting on the part

of the student as a condition of his admission to the law school; and (2) to teach accounting in the law school itself. Both alternatives have advantages and disadvantages. As far as I have been able to determine, the first alternative has never been tried as an absolute requirement; at most, accounting has been regarded as a "desirable" subject for the prospective law student. The modern trend, particularly since the war, has been to include accounting in the law-school curriculum.

I shall now endeavor to summarize, very briefly, the reasons for this situation; and then to outline the objectives and the content of the accounting course in the law school.

## 2.

From time to time, there have been proposals that the law schools prescribe a specific pre-law program for applicants for admission; but these proposals have never gained widespread acceptance. The reasons for the rejection of the prescribed "pre-law" program are many. They involve basic differences of opinion as to the proper subjects to be included, and basic disagreements as to the validity of the whole idea. For example, most law-school teachers are convinced that the prospective law student must, as a minimum, have an effective command of the English language; most of the applicants for admission have "taken" one or more college courses in English composition; and yet, the most common deficiency of students when they enter the law school is their inability to express themselves clearly.

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This paper was presented by Dean Capriles at The First Annual Conference on Accounting Education held under the auspices of the Division of General Education, New York University, on October 20, 1951.

Even in colleges of national reputation, the student tradition seems to be that, once a course has been "taken," it must be promptly forgotten. It is no wonder, therefore, that the law schools' admission procedures have tended to emphasize the over-all quality of the student's college record, and more recently his psychological aptitude for law study, rather than the taking of a specific course or group of courses.

This is the general background. As applied to college accounting courses, our own experience at New York University School of Law has been discouraging. A substantial number of our students have "taken" a semester course in accounting in college; some have taken one or two years of accounting; and some have been trained as professional accountants, and have even practised as CPA's. Except for the last group, these students are seldom able to offer a fair measure of competence in handling the accounting aspects of legal problems. Many have forgotten all the accounting they learned in college; the few who remember show rather clearly that the average college accounting course is pitched to the level of routine book-keeping, with little if any theoretical or analytical content, and therefore not very useful to the law student. I am speaking generally. We draw our students from approximately one hundred liberal-arts colleges and schools of business, and we do find an occasional exception. But the point is that, as a rule, we cannot rely upon the fact that a student has "taken" a college course in accounting.

These are the reasons why an increasing number of law schools have, with considerable reluctance and a fair degree of apprehension, added the course in accounting to the law curriculum. (Parenthetically, I hasten to admit that the law schools also teach English composition—under the title of "Legal Writing.")

3.

As the situation now stands, the typical law-school course in accounting is likely to be scheduled for only 27 to 30 class-hours early in the second year, either for two hours in the third semester or for three hours in the fourth quarter. Often it runs concurrently with the first half of the course in Corporations, and usually precedes the courses in Trusts and Taxation. The trend is also to require it of all students who cannot demonstrate proficiency in the subject.

The severe limitations on the time available for accounting result from the overcrowding of the law-school curriculum. The growing complexity of our society has resulted in a tremendous development of certain branches of the law, such as administrative law, labor law, taxation, trade regulation and international law, which somehow must be fitted into the traditional three-year full-time course of study. Furthermore, the very nature of these legal problems requires that they be studied in the context of our modern social structure, thus intensifying the time pressure for adequate treatment. A number of prominent legal educators have advocated an expansion of the required course of study from three to four full-time years. In this setting, it is astonishing that room has been found, at the expense of strictly legal subjects, for even a short course in accounting. This is probably the clearest indication of the importance attached to accounting by the leading law schools in the United States.

Nevertheless, the law schools are by no means in agreement as to ultimate objectives, content, teaching method and materials, and the criteria for selecting the instructor for the accounting course. There is confusion even as to the proper title of the course. "Legal Accounting"—a catalog favorite designed in all probability to ward off complaints of law-school poaching on the preserve of the business school—is my pet phobia. It is particularly inept,

for it connotes a special kind of accounting applicable to legal problems, which is not or should not be the subject of the course. Under the circumstances, I propose to explain our experience at New York University School of Law, with a warning that it is not necessarily typical of what is going on in other schools. I think we have some of the right answers to the problem, but we don't have *all* the answers, and it is possible that I may be quite wrong.

If this position seems at variance with the professional cocksureness of the lawyer in his ability to solve novel problems of all types, I should mention that I have taught the course for many years, that each year I have found room for improvement, and that the end is not in sight.

4.

At New York University School of Law we have two courses in accounting, which we call "Accounting for Lawyers I and II," each running for two semester hours. The first course is the typical law school course, offered primarily for LL.B. candidates in the second year, although we also admit practising lawyers to the class if they have had no previous training in the subject. This course deals with plain, everyday business accounting; it differs from the many accounting courses offered elsewhere in our vast University organization only in the selection of topics stressed and in the teaching techniques followed.

The second course in accounting is addressed to the graduate law student who has taken the first course or equivalent, and it deals with the accounting aspects of fairly complex legal problems in contracts, damages, corporation law, public utilities, trusts, and taxation. This is not at all the typical law school course, and I shall therefore not describe it in detail.

It is the first course in accounting that presents the real pedagogical challenge: How solid an understanding of

accounting *can* be developed in the student, who has never before had any training in accounting, in the space of fourteen weeks at the rate of two class-hours per week? The answer, I venture to suggest, is: Approximately as much as, if not more than, is usually achieved in two full-year courses in accounting at the college level.

This answer may be astonishing to teachers in the liberal-arts college and the business school, though perhaps not to the teachers of engineering. But it is reasonably accurate, and there is no magic in it.

Fundamentally, this pedagogical "stunt" is feasible because of four principal factors: (1) the law-school student body is highly selected, since it is composed primarily of men and women who have been graduated with A and B records from good colleges; (2) the "professional motivation" of the law-school student drives him to expend his best efforts to an extent which seldom materializes in college; (3) there are several interesting parallels between law and accounting, in approach, in logic, and in principle, which facilitate comprehension of accounting theory and procedure by the law student; and (4) after a year of intensive law-school training, the student acquires a capacity for absorbing material and for thinking through problems which he never dreamed possible in his college days.

Let me now summarize briefly how we at New York University go about teaching accounting to this superior group of students, although the program is "subject to change without notice."

5.

During the first week (hours 1 and 2) we get our bearings. We review the role of money and credit in our society of specialists, and the function of the business enterprise in our competitive economy. This helps to get across some basic notions of the nature of capital, the elements of risk in business activity, the necessity for account-

ing periods, and the tentative character of computations of profit and loss prior to complete liquidation. We also take a preliminary look at the balance sheet and the income statement, and at the relation between these two statements.

The second week (hours 3 and 4) is devoted to the basic structure of double-entry bookkeeping. Although we prefer the "income" approach to accounting theory, we have found that, from a pedagogical point of view, we can teach bookkeeping faster by using the balance sheet approach. We take a very simple corporate problem, involving about ten or twelve transactions, and we work out balance sheet changes. Profit and loss are therefore treated initially in their proprietary context. Then we develop asset and liability accounts, debit and credit (as "left" and "right"), journalizing, posting, the nature of the trial balance and its relation to the preparation of the balance sheet. The next step is to work out income and expense accounts as temporary breakdowns of "surplus," the new trial balance, its use in the preparation of both the balance sheet and the income statement, and the closing of the books. Two or three elementary bookkeeping exercises are assigned for home work.

The third week (hours 5 and 6) is largely devoted to a review of assigned problems, handled by class recitations, so that every student will get into the groove of double-entry analysis of transactions. If time permits, a lecture is given describing generally the mechanical aspects of bookkeeping which are not covered practically in the course, such as controlling accounts and subsidiary ledgers, special journals, voucher systems, and machine accounting.

The fourth and fifth weeks (hours 7 to 10) are devoted to the preliminary development of basic theory in the matching of periodic revenue and costs. The test of "realization" for recognition of revenue is relatively easy to present by analogies in the law of con-

tracts and sales. The matching of merchandise costs, in a simple case, follows. Then we develop the function of asset and expense accounts in allocating prepaid expenses (e. g., prepaid rent) between accounting periods, and the parallel function of liability and income accounts on the other side of the transaction. From prepayments, it is an easy step to fixed assets and depreciation, and to the handling of accruals. The analogy of adjustments at a real-estate closing is useful here. The theoretically more difficult problem of the allowance for bad debts usually takes the better part of an hour. A fairly long problem, involving a substantial number of adjustments and the use of the worksheet, is assigned for home work at this time.

The sixth and seventh weeks (hours 11 to 14) are taken up partly with class review of the adjustment problem, and partly with a comprehensive analysis of merchandise problems, usually in alternate hours. The perpetual and periodic inventory systems are presented largely in terms of the mechanical separation of accumulated costs into current and future costs. Attention is given to the theoretical aspects of inventory pricing, with some reference to the American Institute of Accountants' bulletins on the subject. The parallel problem of allocating costs through adjustments of fixed-asset and prepaid-expense accounts is re-emphasized, and the students are encouraged throughout to visualize the effect of applying these techniques upon the balance sheet and income statement.

The eighth week (hours 15 and 16) is a "clean up" week, devoted to the following topics: (1) a comparison of the "value" and the "deferred cost" interpretations of property assets on the balance sheet; (2) depreciation methods; (3) correction of errors in estimating depreciation and bad debts; (4) manufacturing accounts. Mention is made of the special features of public-utility property valuation, and of the reasons for excluding this topic from



consideration in the course. At this point, a simple manufacturing problem is assigned.

The ninth week (hours 17 and 18) is taken up with accounting for intangibles. We examine critically the concept of non-depreciable assets, and the problem of measuring the "economic" or "useful" life of patents, organization costs and goodwill for purposes of amortization. Goodwill receives special attention because it has been the subject of much confusion in the courts. Sometimes we do a standard problem in amortization of bond premium and discount at this stage of the course, in order to bring out the rationale of the point of view which interprets goodwill as the cost of, or premium paid for, the superior earning power of an acquired going concern. Here too is one of the few cases where the provisions of the tax law are considered.

The next three weeks (hours 19 to 24) are devoted to problems of corporate capital, surplus, dividends, reserves and funds. These topics are introduced by a lecture on modern corporate finance, developing the relation between accounting and financial concepts in such matters as the sources of assets, fixed and circulating capital (or frozen and liquid assets), working capital, effect of profits and losses upon surplus and upon liquid position, etc. Next, there is an examination of the various ways in which an accounting surplus can be created, and of the effect of dividend payments in each case. This approach helps the student to understand the problem of unrealized appreciation of assets, the problems created by expansion out of earnings, and the similar problems resulting from inflation. It also helps to place the stock dividend in proper perspective. At this point we discuss the creation, effectiveness and ultimate disposition of "surplus" reserves set up for the purpose of restricting cash dividends, either because of threatened losses or because of additional capital needs. Now we are ready to contrast

the old and the modern views of the allowance for depreciation, and its relation to the financing of replacements. Finally there is a brief consideration of funds, including sinking funds, from both the accounting and financial points of view. Short exercises in classifying reserves and in preparing a statement of sources and application of funds are assigned at this time.

The thirteenth week (hours 25 and 26) is devoted to a critical analysis of the balance sheet and the income statement in relation to the "value" of an enterprise. We also look into watered stock and its consequences, and into the non-proprietary view of enterprise income. The limited meaning of "book value" of shares of stock is considered at some length, and a short exercise in the computation of book value is assigned. Then we consider the problem of accounting for investments in stock of other corporations, as an introduction to consolidated statements.

The fourteenth week (hours 27 and 28) is usually the last full week of class, although in some semesters we have an extra hour or two prior to the examination. The final hours, from two to four, are devoted to consolidated statements and review. One or two simple problems are assigned, depending on the available time. The treatment in class is fairly elementary, but at least the consolidated balance sheet is adequately explained.

6.

As you will undoubtedly notice, the course in Accounting for Lawyers I at New York University School of Law is keyed primarily to the accounting concepts which will be of particular value to the student in his course on Corporations. This is perhaps due to my personal interests, since I also teach Corporations. But I think the scheme is quite defensible. Most of the accounting problems in the law of trusts arise in connection with corporate securities; the special accounting problems encountered in public utilities and in

taxation can be more readily understood by comparison or contrast with the parallel situations in ordinary business accounting; and all of these problems can best be handled in the specific courses on trusts, public utilities, and taxation.

The teaching method depends somewhat on available books and practice materials. In general, our course on Accounting for Lawyers I does not follow the pattern of orthodox law-school courses. First, the inductive case method has very limited utility: Few cases decided by the courts contain good teaching material for a basic course in accounting; for the most part, the cases show a lack of comprehension of accounting, and are perhaps the best evidence that lawyers and judges need some training in the subject. Furthermore, the case method, despite its obvious advantages for the student as a learning process, is a slow method of teaching and not well-suited to a concentrated study of a specialized system of thought, such as accounting. Therefore, we use the cases sparingly, and mostly as illustrations of the particular problem under consideration. We have found that the most effective method for teaching accounting in the law school is to work out a core of solid theory, which will enable the student not only to tie together the main strands of accounting procedure but also to develop his critical faculties in evaluating the cases.

By and large, the two recent books on accounting which have been compiled especially for use in the law schools are extraordinarily interesting, and if you are not familiar with them, I recommend them for your examination. Admittedly they are difficult to use successfully in a short course for students who have had no previous knowledge of accounting. (We do better with one of these books in our second course for advanced students.)

Similarly, most of the accounting books used in general college courses are good enough for elementary bookkeeping, but do not contain sufficient theoretical analysis for our purposes. Therefore, we have tended to assign one of the available books as a basic text and have relied upon lectures and blackboard demonstrations by the instructor to supplement the text at appropriate points. Some day, we may prepare a special text for our course in Accounting for Lawyers I, but we have not yet done so.

There is also some difficulty in finding qualified teachers for the subject. On the whole, it is desirable (perhaps essential) that the teacher be trained in both accounting and law. The main weaknesses of most teachers of accounting who are not law teachers are: (1) too much concentration on questions of bookkeeping technique, rather than on theory; (2) lack of familiarity with the intensive pace of law-school instruction; and (3) inability to relate accounting questions to the legal training already obtained by the student and to the legal problems which he will meet in other courses. On the other hand, most law teachers are not adequately trained in accounting, and particularly in accounting theory, to do a competent job.

7.

In summary, our point of view at New York University School of Law, which I think is typical of the point of view at other law schools, is that the teaching of accounting in the law school is still in the experimental stages. However, the desirable objective, contents, and approach of the course are beginning to be clearly outlined. Needless to say, we would be grateful for any assistance which professional teachers of accounting may be willing to give us in working out a satisfactory solution to these problems.



# The Art of Using Audio-Visual Aids in Accounting Education

By MICHAEL A. C. HUME, C.P.A.

## Outline of Address

1. Widespread use by the Armed Services during World War II has demonstrated beyond doubt that audio-visual training aids do make learning easier.

2. Careful evaluation by qualified experts indicates that the *proper use* of audio-visual aids offers the following advantages to the students:

- (a) Learn more. Tests show that audio-visual aids help students to learn more in a given time.
- (b) Remember longer. Tests show that facts learned are remembered longer.
- (c) Increase interest. Audio-visual aids command attention and stimulate interest, and thereby motivate students to learn.

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This is the outline of an address presented by Mr. Hume at The First Annual Conference on Accounting Education held under the auspices of the Division of General Education, New York University, on October 19, 1951.

(d) Increase confidence. Audio-visual aids may help to remove mental obstacles to learning, by increasing the confidence of the student in his ability to master a difficult topic.

3. Audio-visual aids offer these advantages for the following reasons:

- (a) They broaden the sensory experience of the learner.
- (b) They strengthen visual images.
- (c) They provide vicarious experience. They offer the sensation of experience which is not possible to gain in the classroom, and which is outside the realm of prior background.
- (d) They add variety. This stimulates learning.
- (e) They assist the slower student in learning. The instructional aid can remain before the student or be referred to until he has mastered the subject. Spoken words fade away.
- (f) They demonstrate to the student the practical value of the subject matter being taught.

4. Despite these proven advantages, there has been resistance to the wider application of audio-visual aids in civilian education. Much of this resistance is founded upon an incomplete understanding of the nature of audio-visual aids. There are certain common fallacies:

- (a) Fallacy that an audio-visual aid is a substitute for a teaching method.
- (b) Fallacy that the use of audio-visual aids means less work for the instructor.
- (c) Fallacy that audio-visual aids are necessarily expensive.

- (d) Fallacy that the merit of audio-visual aids lies in their entertainment value.

5. Actually, an audio-visual aid is a supplement to a teaching method—not a substitute for it. Some of the common teaching methods are:

- (a) Lecture.
- (b) Directed discussion.
- (c) Demonstration.
- (d) Group performance.
- (e) Coach and pupil instruction by students.
- (f) Role playing.
- (g) Case study.
- (h) Question and answer.

6. The competent instructor selects that particular teaching method which he considers most effective in view of the training situation. He then selects that particular audio-visual aid which best reinforces that teaching method.

7. The elements in the teaching situation are:

- (a) The students. Their attitudes, aptitudes, prior experience, etc.
- (b) The instructor. His competence; personality; knowledge of the laws of learning; skill in instructing; attitude towards the students, etc.
- (c) The subject matter to be taught. There are three types of learning which may be involved. The goal may be
  - (1) To convey knowledge. This refers to cognitive knowledge.
  - (2) To develop skill. This may be physical skill, social skill, or intellectual skill.
  - (3) To impart attitudes.

8. The application of this analysis to accounting education is apparent.

- (a) Knowledge. The accounting student must master an aggregation of facts.
- (b) Skill. He must also learn "how to do it." Herein lies the validity of the dictum that "Accounting is learned at the point of a pencil."

- (c) Attitudes. The student who aspires to become an auditor must cultivate attitudes of wholesome skepticism, accuracy, directed curiosity, etc.

9. The analysis given above is sufficient to explode the second fallacy; that the use of audio-visual aids means less work for the instructor. On the contrary, the proper utilization of audio-visual aids requires a great deal more time, ingenuity, and careful scheduling on the part of the instructor. The instructor must

- (a) Preview the aid. He must see the film, listen to the recording, examine the chart, etc. He consults the accompanying study guide. He may spend a great deal of time thus studying aids which he subsequently rejects as inappropriate.
- (b) Schedule use of the aid. This involves preparation of the classroom, arranging for a projectionist, screen, film, or whatever other material may be involved.
- (c) Careful integration of the aid with the lesson plan. The class must be prepared. The aid must be concealed until the appropriate moment. It must be presented without fumbling. It must be followed-up with a discussion, a test, or other application of the knowledge gained.

10. Unless all of this is done, the presentation will be amateurish rather than professional. This means more preparation for the instructor, and more learning for the student. This is as it should be. The students are investing their tuition and their time to buy learning. It is the instructor's obligation to assist the students as effectively as he can.

11. The secret of success here is *preparation*. This can make a poor instructor adequate, and an average instructor outstanding.

12. Thus, it is apparent that audio-visual aids need not be expensive to be effective. For example, a carefully

planned chalk talk will be much more effective than an expensive full color motion picture which has been selected without much planning.

13. Each type of audio-visual aid has its advantages and its limitations. Some of the aids which we will briefly discuss are the following:

**(a) Motion Pictures**

Films for instructional purposes are 16 mm. They may be in color or black and white. They may be sound or silent. Sound films should *never* be run on a silent projector.

*Advantages:*

- (1) They portray and simulate actual life situations. Therefore, an effective means of imparting attitudes.
- (2) Motion pictures have pleasant emotional associations. This inherent interest motivates the student to be in a receptive frame of mind.
- (3) With the permission of the film sponsor, motion pictures can be edited to portray the exact message required, leaving out material which is irrelevant for the educational purpose in mind.

*Limitations:*

- (1) Hazard of merely passive acceptance on the part of the student.
- (2) Temptation to use a movie, merely because it is available, rather than as a part of definite objective.
- (3) Temptation to show movies for their entertainment value rather than educational content.
- (4) Require a trained projectionist.
- (5) Require screen, darkened room, projector, etc.
- (6) Motion pictures are expensive to produce locally.

*An experiment with motion pictures in accounting education*

Last year the New York Chapter of the National Association of Cost Accountants conducted a forum under the

title, "Armchair Plant Visits." This consisted of motion pictures depicting the processes and the equipment used in a particular industry. The film showing was subsequently followed by a speaker, familiar with the industry, who explained the cost accounting and cost control techniques of that industry.

It was found that the motion pictures offered the following advantages over actual plant visits:

- (1) Audiences included more than 100 at several meetings. A guide cannot explain operations to more than ten visitors at a time in an actual visit.
- (2) Factory noise makes explanations difficult to hear.
- (3) Stragglers delay the whole party in an actual plant visit.
- (4) Films eliminate the time lost in traveling to and from the plant and in traveling between the various processes.
- (5) Films overcome the barrier of distance. (For example, it is not practical to take the group from New York to a Texas oilfield.)
- (6) Films permit viewing dangerous processes or dirty processes without hazard.
- (7) Films permit viewing processes in logical sequence, regardless of the plant layout.
- (8) The camera can slow down fast action for study, or speed up slow processes.
- (9) Intricate or highly technical processes can be explained by means of animation. Internal functions can similarly be portrayed.

**(b) Filmstrips**

A roll of still pictures arranged in sequence. 35 mm. They may be in color or black and white. They may be silent or they may be accompanied by a recording which explains the pictures on the strip. Usually accompanied by an instructor's manual.

*Advantages:*

- (1) Image can be projected for prolonged observation and discussion.
- (2) Instructor can use illuminated pointer or projected arrow to point out features on the strip.
- (3) Strips of film are compact for easy storage.
- (4) Less expensive than motion picture equipment.
- (5) Filmstrips can be prepared locally. They are less expensive to produce than motion pictures, yet more expensive than slides.

*Limitations:*

- (1) Do not portray motion. (However, they may be used to portray a series of ideas of events without action.)
- (2) Sequence of illustrations is predetermined.
- (3) Requires operator, screen, partial darkness, etc.

*(c) Slides*

Usually 2" x 2" or 3¼" x 4". May be color or black and white.

*Advantages:*

- (1) Equipment is inexpensive.
- (2) Slides are inexpensive and easy to prepare locally.
- (3) Flexible. Slides may be run in any sequence.

*Limitations:*

- (1) Hazard of getting slides out of sequence.
- (2) Slides are less compact than filmstrip.
- (3) Glass slides subject to breakage.
- (4) Require screen and partial darkness.
- (5) Require projectionist for instructor to be fully effective.

*(d) Overhead Projector for Transparencies*

Various models accommodate various sizes of transparencies up to 10"x10". May be color or black and white.

*Advantages:*

- (1) Unnecessary to darken room while projecting. (Hence students may take notes.)
- (2) Instructor controls the slides. No separate projectionist needed.
- (3) Instructor faces class. Does not lose the face-to-face contact.
- (4) Instructor can write or draw on the slide while it is being projected.
- (5) Various techniques of "flop-over" transparencies available for added effectiveness.

*Limitations:*

- (1) Necessary to prepare transparencies.
- (2) Transparencies more bulky than filmstrips or slides.
- (3) Older models of this equipment sometimes emit a glare into the instructor's eyes.
- (4) Requires screen.

*(e) Opaque Projector*

Will project any picture, map, or diagram—in color—on the screen.

*Advantages:*

- (1) Easy to prepare material locally.
- (2) Can project page from a book.
- (3) Very flexible.

*Limitations:*

- (1) Requires some darkening of the room, and a screen.
- (2) Requires an operator in addition to the instructor, for effective presentation.

*(f) Blackboard*

Familiar to everyone.

*Advantages:*

- (1) Availability. Every classroom has one.
- (2) Completely flexible.
- (3) Has unsuspected potentialities. Colored chalk. Chalk talks with simple cartoons and sketches.
- (4) Not necessary to darken room.



## *The Art of Using Audio-Visual Aids in Accounting Education*

### *Limitations:*

- (1) Instructor writes with his back to the class.
- (2) Drawing of complicated illustrations should be done before class starts, so as to avoid wasting class time.
- (3) Distracting effect of material on board, after the point has been discussed. (Or need for frequent erasing by instructor.)

### *(g) Easel and Pad*

An alternative to the blackboard. Writing is done with colored crayons instead of chalk.

### *Advantages:*

- (1) Can prepare illustrations before class, yet present to the class in flop-over style. Thereby effectiveness is retained.
- (2) Can easily remove material by tearing off the sheet, or by moving to a new page.

### *Limitations:*

- (1) Expense of replacement pads.

### *(h) Flannel Board*

Sandpaper backed illustrations adhere to the flannel. Principal value is that it dramatizes the presentation. Must be carefully planned in advance, and not very flexible.

### *(i) Pictorial Aids*

Great variety here. Flow charts are extremely valuable in the teaching of accounting procedures.

### *(j) Models and Real Objects*

Used extensively in auditing case history courses. One college used to obtain the books of bankrupt concerns after the proceedings in bankruptcy had been completed. These actual books were then used in the auditing laboratory, giving a flavor of authenticity.



## **How Much Education Can an Accountant Use?**

(Continued from page 18)

have employed. From this point of view I have some knowledge of accounting education and a keen appreciation of its strength and weaknesses.

There is a certain general background of experience, knowledge and method that, in the long run proves to be the most useful and most necessary to a successful accountant. Among the early leaders of the profession in this country were men who had had the advantage of the British system of classical education. They could not use their classical education directly in their work. However, the grasp that these men, with

their broad background of knowledge, had of their work made their influence on the profession in general deep and profound, both in an ethical and technical way. The broadly educated man who has mastered his technical means will be the leader of the profession tomorrow. While we do not know exactly how the schools will produce this type of man, I assure you that the school which adheres to this ideal most closely will be the school which is doing the best job for its students, for the profession and for the school itself.

# Some Opinions of Representative CPA's Concerning the Educational Qualifications Which Prospective Employees Should Have

*A Survey made by the COMMITTEE ON EDUCATION*

*This article is addressed to the various groups of people who have an interest in accounting education and training. It is based on a survey made by the Committee on Education of The New York State Society of Certified Public Accountants. Its three main objectives are:*

- 1. To indicate to accounting educators, vocational advisors, state officials, legislators, and others, the type of educational background and training which is desirable for the public accountant.*
- 2. To help students and young accountants judge their qualifications when they consider seeking employment in public accounting.*
- 3. To aid accounting firms and practitioners who wish to compare their employment standards with those of other CPAs.*

## The Accounting Profession Needs Able Men

**C**ERTIFIED PUBLIC ACCOUNTANTS are members of the fastest growing profession in the country.

Because of this expansion, the profession is anxious to attract qualified men. Professional societies of certified public accountants have given this question high priority in their programs. More and more students are becoming interested in public accounting as a career.

Obviously, however, not everyone who is interested in public accounting is suited for the profession. Special qualifications are necessary for success.

This is true in all professions. Despite its rapid growth, public accounting is no exception. In fact, one of the reasons for the increasing use of professional accounting services by the business and financial community is

that accounting firms have maintained a high standard in selection of personnel.

Students, educators and certified public accountants have shown deep interest in the question of how accounting aspirants should prepare for the profession—and what educational qualifications are desirable or essential for employment as a junior accountant.

Tremendous strides have been made in accounting education since the first CPA law was passed in 1896. Continuous progress will be made in the future. In making this survey, the Committee on Education of The New York State Society of Certified Public Accountants hopes to contribute to the fund of data on this subject.

## A Word About the Survey

The survey, conducted by mail questionnaire, was centered on questions of education, employment and training of staff assistants to practicing certified public accountants. CPAs who were queried included partners of large,

This article is also available in booklet form at the offices of the Society.

## Opinions of Representative CPAs Concerning Educational Qualifications

medium-sized and small firms, and individual practitioners, from different cities and areas in New York State.

Although the total sample—sixty-three—is not large statistically, the Committee on Education feels that it represents a reliable cross-section, and therefore that the opinions reflect general thought among different types of firms and practitioners.

To a great extent, the survey is similar to one conducted by the Society in 1937. However, the 1937 questionnaire was revised considerably for the current survey in order to reflect developments which have taken place in the accounting educational system and in accounting and auditing standards and procedures.

In addition, several new subjects were added. An important one is the use of accounting aptitude and the achievement tests developed since the war by the American Institute of Accountants.

Two points should be emphasized:

First, the survey is confined primarily to educational qualifications. It does not attempt to go into such questions as the principles and techniques of education. Educational methods, obviously, are in the province of educators, not of professional accountants.

Second, the survey refers only to qualifications desired in the *public* accounting employee. It is not concerned with qualifications for other accounting work—industry or government accounting, for example.

### Technical Knowledge Is Not Enough

Accounting requires sound technical knowledge—but in public accounting, being a good technician is not enough. This stands out among the broad imports of the survey.

In substance, the survey brought out these nine major points:

1. The junior accountant should have sound basic knowledge of accounting, auditing and related subjects.
2. He should also have a solid foundation in English, and should be able to express himself clearly—both orally and in writing.
3. A well-rounded background in the liberal arts is helpful.
4. Education is more important than experience for the applicant, although experience in addition to education has obvious value.
5. As a rule, not having completed the educational requirements for the New York State CPA examination presents an obstacle to employment by many firms in the State.
6. Preference is given to those who have taken graduate work, especially if in business administration and accounting.
7. College grades receive particular consideration by most employers.
8. Many employers also give consideration to the results attained on the tests included in the personnel selection program of the American Institute of Accountants.
9. Deficiencies in the “basics”—such as spelling, arithmetic or grammar—are definite drawbacks.

### Capsule Account of Results

A capsule account of replies to the various questions in the survey follows. The survey tabulation starts on page 49.

### General Employment Standards

Replies in this section of the questionnaire indicate that CPAs usually give more weight to education than to experience when considering applicants for positions as junior accountants.

Only a small number of those replying to the questionnaire have a rule that assistants they employ must have had prior bookkeeping, accounting or business experience.

Two-thirds give preference to a man who has had education regardless of experience, as compared to the man

who has had experience regardless of education. Two-thirds as a rule employ only men who have met the educational requirements for the New York State CPA examination. About one-third do not find it practicable to take men who are studying evenings to meet these requirements.

Of the eighteen firms in the survey who note that they have employed college students under internship programs, only one has found them unsatisfactory. However, twenty-five firms state that they give preference to men who have taken part in these programs. (Perhaps it should be noted that under these programs, a student leaves his college during the fall or winter for a period ranging from a few weeks to several months to work as a junior in a professional accountant's office.)

Additional study beyond the basic educational requirements for the CPA certificate definitely has value. Five-sixths say that they give preference to men who have a significant amount of extra credits in business administration and accounting, and two-thirds give preference to men with extra credits in the liberal arts. Law and industrial engineering carry less, though appreciable, weight.

The final question in this section asked the respondents to rank six other factors which might affect employment decisions. Of the factors listed, college grades have the highest importance. Next in order is readily legible handwriting. Third is participation in extra-curricular affairs, followed by ability to perform mathematical processes without mechanical aids, earning all or part of one's way through college, and ability to use mechanical aids.

### **Personnel Testing**

Although the personnel testing program sponsored by the American Institute of Accountants has been in operation for only a few years, it is interesting to note that a substantial majority of the people answering the questionnaire ask applicants whether they have

taken the tests. Of this group, all give either major or moderate weight to the tests.

In addition, over one-third give separate tests when selecting staff members.

### **Value of Different Subjects**

According to the survey, the four subjects most valuable in preparing for public accounting are the technical studies — accounting principles, auditing, accounting problems, and arithmetic.

Of the next four most valuable—this seems particularly significant—three concern use of the language; business English, report writing, and English composition. The other in this ranking is professional ethics.

A total of over forty subjects was covered in this part of the questionnaire. The ratings which they received—varying from essential to unimportant—should be of special interest to students and teachers. They are reported in full on pages 52 and 53.

### **Deficiencies among Recent Graduates**

Here again, the question of ability to use the English language receives heavy emphasis.

Of qualifications which should have been acquired before college, these are termed most often lacking: grammar, handwriting and spelling.

Of qualifications which should have been acquired in college, the most common deficiency reported is the lack of ability to make clear statements, orally or written. It should be noted that deficiency in knowledge of accounting and auditing appears quite a bit less common.

Where over-all characteristics are concerned, initiative and imagination are classed as the qualities whose lack is most often noted.

A separate question related to professional ethics. While over fifty percent of those replying believe that recent college accounting graduates are

## *Opinions of Representative CPA's Concerning Educational Qualifications*

acquainted with the ethics of the profession, less than half believe that the graduates have a real understanding of these ethics.

### **Staff Training**

Two thirds of the firms and practitioners replying to the survey have organized educational or training plans or procedures for newer employees.

Procedures and techniques vary widely. Some firms have formal training classes, while others furnish staff members with informational material on accounting and related subjects.

Practically all make library facilities available, encourage attendance at technical meetings of accounting organizations, issue memoranda and bulletins, cooperate in preparation for the CPA examination, and the like.

Generally speaking, this training concentrates on technical questions—such as auditing principles and procedures, preparation of tax returns, and preparation of working papers. Bulletins and other material from the American Institute of Accountants are the most frequently used training manuals.

## **COMPLETE SURVEY RESULTS**

A complete tabulation of the results of the survey follows:

### **I. Employment Standards**

- A. In your employment of junior assistants have you been able to give employment to graduates of colleges who have not had professional accounting experience or business experience?
- |           |    |          |   |                 |   |
|-----------|----|----------|---|-----------------|---|
| Yes ..... | 53 | No ..... | 6 | Qualified ..... | 4 |
|-----------|----|----------|---|-----------------|---|
- B. Do you have any rule that assistants you employ must have had some prior experience in—
1. Bookkeeping, accounting, or clerical work?
 

Yes .....	10	Qualified Yes .....	2
No .....	47	Qualified No .....	2
No answer .....		2	
  2. Professional accounting?
 

Yes .....	6	Qualified Yes .....	2
No .....	49	Qualified No .....	1
No answer .....		5	
  3. Other business activity?
 

Yes .....	0	Qualified Yes .....	1
No .....	52	Qualified No .....	1
No answer .....		9	
- C. If you do not have such a rule, do you give definite preference to those who have had prior experience in—
1. Bookkeeping, accounting, or clerical work?
 

Yes .....	37	No answer .....	9
No .....	17		
  2. Professional accounting?
 

Yes .....	43	No answer .....	10
No .....	10		
  3. Other business activity?
 

Yes .....	20	No answer .....	18
No .....	25		

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- D. Do you give preference in employment to an applicant who has had—
1. Practical accounting experience regardless of education?
 

Yes .....	12	Qualified .....	3
No .....	42	No answer .....	6
  2. Education regardless of practical accounting experience?
 

Yes .....	42	Qualified .....	2
No .....	12	No answer .....	7
- E. 1. Do you, as a rule, employ only those who have met the educational requirements of New York State for taking the C.P.A. examinations?
- |           |    |                 |   |
|-----------|----|-----------------|---|
| Yes ..... | 41 | Qualified ..... | 2 |
| No .....  | 19 | No answer ..... | 1 |
2. Do you find it practicable to employ those who are studying evenings to meet such requirements?
- |           |    |                 |   |
|-----------|----|-----------------|---|
| Yes ..... | 37 | Qualified ..... | 2 |
| No .....  | 24 |                 |   |
3. If so, approximately what percentage of those you engage each year are studying evenings to meet New York State C.P.A. requirements?
- |         |      |          |            |
|---------|------|----------|------------|
| 3 ..... | 100% | 7 .....  | 50%        |
| 1 ..... | 90%  | 1 .....  | 33%        |
| 1 ..... | 70%  | 26 ..... | 10% to 15% |
- F. 1. Do you employ students for your staff under college "internship" programs?
- |           |    |                 |   |
|-----------|----|-----------------|---|
| Yes ..... | 18 | Qualified ..... | 4 |
| No .....  | 39 | No answer ..... | 2 |
2. If so, have you found the "interns" to be satisfactory?
- |           |    |                 |    |
|-----------|----|-----------------|----|
| Yes ..... | 17 | Qualified ..... | 2  |
| No .....  | 1  | No answer ..... | 43 |
3. Do you give preference, when employing recent graduates, to those who have had experience as "interns?"
- |           |    |                 |    |
|-----------|----|-----------------|----|
| Yes ..... | 25 | Qualified ..... | 6  |
| No .....  | 12 | No answer ..... | 20 |
- G. Please state whether you give preference, in employment of college graduates who are academically qualified to sit for the New York C.P.A. examination, to those who have earned a significant number of extra credits (either in graduate or undergraduate study) in the following fields and indicate your opinion of the value of such additional education. (Note: In answering this question and question H, some said "yes" but indicated no grading.)
1. Liberal arts.
 

Yes .....	41	Qualified .....	1
No .....	16	No answer .....	5
Major .....	11	Moderate .....	23
		Slight .....	5
  2. Law.
 

Yes .....	34	Qualified .....	4
No .....	21	No answer .....	4
Major .....	5	Moderate .....	21
		Slight .....	8



# *Opinions of Representative CPA's Concerning Educational Qualifications*

## 3. Industrial engineering.

Yes .....	32	Qualified .....	4
No .....	22	No answer .....	5
Major .....	3	Moderate .....	21
		Slight .....	7

## 4. Business administration and accounting.

Yes .....	53		
No .....	7	No answer .....	3
Major .....	42	Moderate .....	10
		Slight .....	0

## H. Please state whether you give particular consideration, in employment of college graduates, to each of the following and indicate the degree of importance which you assign to each—

### 1. Grades received.

Yes .....	56		
No .....	5	No answer .....	2
Major .....	37	Moderate .....	18
		Slight .....	0

### 2. Participation in extra-curricular activities, such as leadership in student affairs, athletics, etc.

Yes .....	51	Qualified .....	1
No .....	9	No answer .....	2
Major .....	13	Moderate .....	26
		Slight .....	10

### 3. Having earned a part or all of college expenses.

Yes .....	38	Qualified .....	2
No .....	20	No answer .....	3
Major .....	3	Moderate .....	27
		Slight .....	7

### 4. Readily legible handwriting.

Yes .....	54	Qualified .....	3
No .....	5	No answer .....	1
Major .....	10	Moderate .....	39
		Slight .....	3

### 5. Ability in use of mechanical aids (adding machine, computing machines, etc.) in performing mathematical processes.

Yes .....	25	Qualified .....	7
No .....	30	No answer .....	1
Major .....	2	Moderate .....	7
		Slight .....	15

### 6. Ability to perform mathematical processes without such mechanical aids.

Yes .....	44	Qualified .....	3
No .....	14	No answer .....	2
Major .....	14	Moderate .....	25
		Slight .....	4

## II. Tests

### A. 1. Is it your practice to inquire whether an applicant for employment has taken any of the tests included in the testing program sponsored by the Committee on Selection of Personnel of the American Institute of Accountants?

Yes .....	38	Qualified .....	1
No .....	24		

### 2. If so, to what extent do you give weight to the results which they indicate?

Major .....	11	Moderate .....	25	Slight .....	0
		No answer .....	27		

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- B. 1. Is it your practice to give tests in selecting new staff members?  
       Yes ..... 25                      No ..... 38
2. If so, check the following factors which your tests are intended to cover and note under "h" any other such factors.
- a. Accuracy in performing mathematical processes ..... 16
  - b. Knowledge of accounting fundamentals ..... 21
  - c. Knowledge of auditing fundamentals ..... 19
  - d. Speed in accounting work ..... 11
  - e. Ability to read understandingly ..... 14
  - f. Ability to write clearly ..... 16
  - g. Ability to draft conventional financial statements ..... 11
  - h. Others (specify) : AIA Test only ..... 3

### III. Evaluation of Subjects

- A. Please indicate your opinion of the value, to those preparing for public accounting work, of the following subjects in *college education*, by writing at the left of each subject a letter from a to e indicating as follows:
- a. Essential
  - b. Desirable
  - c. Slight value
  - d. Unimportant
  - e. No opinion

<i>Subjects classed as ESSENTIAL by a majority of those replying</i>	<i>Essential</i>	<i>Desirable</i>	<i>Total</i>
Principles of accounting .....	62	1	63
Auditing .....	62	1	63
Accounting problems .....	59	2	61
Arithmetic .....	57	3	60
Business English .....	56	5	61
Report writing .....	51	9	60
Ethics (professional) .....	49	9	58
English composition .....	48	11	59
Commercial law .....	45	13	58
Algebra .....	42	18	60
General economic theory .....	40	19	59
AIA Bulletins on Accounting and Auditing..	36	22	58
Corporation finance .....	35	22	57
Federal Income Tax law and practice .....	34	25	59
Cost accounting .....	33	24	57
Mathematics of finance .....	32	25	57

<i>Subjects classed as ESSENTIAL OR DESIRABLE by a majority of those replying</i>	<i>Essential</i>	<i>Desirable</i>	<i>Total</i>
Systems .....	17	39	56
Public speaking .....	17	39	56
Money and banking .....	24	29	53
Business organization and management .....	24	29	53
Budgeting .....	12	39	51
State and municipal taxation .....	21	28	49

## Opinions of Representative CPA's Concerning Educational Qualifications

<i>Subjects classed as ESSENTIAL or DESIRABLE by a majority of those replying</i>	<i>Essential</i>	<i>Desirable</i>	<i>Total</i>
Business cycles .....	21	28	49
Statistics .....	12	37	49
English literature .....	25	23	48
Logic .....	15	33	48
Credit management and collections .....	16	28	44
Securities and Exchange Commission requirements .....	12	29	41
Industrial management .....	4	36	40
Labor problems .....	13	25	38
Geometry .....	13	24	37
Human relations .....	13	25	38
Psychology .....	7	30	37
American history .....	14	22	36
Public finance .....	3	32	35
Principles of insurance .....	5	29	34
European history .....	7	25	32

<i>Subjects classed as being of slight importance or unimportant by a majority of those replying</i>	<i>Slight Importance</i>	<i>Unimportant</i>	<i>Total</i>
Laboratory work in science .....	28	24	52
Biology .....	16	35	51
Mechanical drawing .....	32	18	50
Market research .....	30	20	50
Sales management .....	26	24	50
Principles of advertising .....	25	24	49
Personnel management .....	31	17	48
German .....	26	21	47
Calculus .....	28	17	45
Chemistry .....	23	22	45
French .....	24	19	43
Analytical geometry .....	29	13	42
International trade .....	26	16	42
Transportation .....	28	14	42
Principles of marketing .....	24	18	42
Physics .....	21	21	42
Purchasing .....	22	19	41
Public relations .....	21	19	40
Spanish .....	21	18	39
Trigonometry .....	25	13	38
Geography .....	23	11	34
Philosophy .....	24	8	32

### IV. Deficiencies Noted

- A. What are the more important qualifications in which you find that the recent graduates of college accounting courses are particularly lacking?
  1. Which you believe should have been acquired in *pre-college* study (such qualifications, for example, as legible handwriting, knowledge of English

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grammar, ability to spell, use basic arithmetic accurately, etc.)—(specify) :

a. Grammar .....	45	e. English composition ....	10
b. Handwriting .....	41	f. Elocution .....	9
c. Spelling .....	29	g. Reading ability .....	3
d. Arithmetic .....	18	h. Vocabulary .....	2

2. Which you believe should have been acquired in *college* (such, for example, as understanding of accounting principles, auditing methods, ability to make clear statements in English, etc.)—(specify) :

a. Oral and written English .....	37
b. Audit methods .....	25
c. Accounting principles .....	13
d. Report writing .....	10
e. Preparation of work papers .....	3
f. Analytical ability with ability to judge .....	3

3. Which you believe would normally be acquired only in part in connection with school or college work (such qualifications, for example, as initiative, determination, imagination, cooperativeness, etc.)—(specify) :

a. Initiative .....	32
b. Imagination .....	29
c. Determination .....	13
d. Cooperation .....	10
e. Tact, Pervervance, Personal appearance, Punctuality, Judgment .....	2 each

- B. Do you find that recent graduates of college accounting courses have acquired :

1. Knowledge of the recognized items of ethics of the profession, as set forth in rules of professional conduct?			
Yes .....	35	No .....	26
		No answer .....	2
2. Understanding of those items of professional ethics?			
Yes .....	27	No .....	33
		No answer .....	3

## V. Staff Training

- A. Do you have any educational or training plan or procedure, aside from that of training the employees as they work?

Yes .....	42	Qualified .....	1
No .....	18	No answer .....	2

- B. If so, what form or forms of training or education do you use?

1. Lectures to classes?	Yes .....	20
	No .....	14
	Qualified .....	1
2. Discussion groups?	Yes .....	27
	No .....	8
	Qualified .....	2
3. Assignment of problems, etc., for educational and training purposes?	Yes .....	13
	No .....	16
	Qualified .....	1
4. Issuance of memoranda, bulletins, etc., on selected subjects?	Yes .....	40
	No .....	3

## Opinions of Representative CPA's Concerning Educational Qualifications

5. Availability of library?	Yes .....	48
	No .....	0
6. Providing subscriptions to accounting magazines?	Yes .....	24
	No .....	13
	Qualified .....	2
7. Encouragement of attendance at technical meetings of accounting organizations?	Yes .....	46
	No .....	0
	Qualified .....	1
8. Cooperation and encouragement re preparing for and passing CPA examinations?	Yes .....	45
	No .....	1
C. In what subject or subjects do you especially endeavor to educate or train your newer employees? (specify).		
a. Auditing principles, methods and procedures .....		34
b. Income tax and returns .....		15
c. Preparation of working papers .....		12
d. Preparation of reports .....		8
e. Principles of accounting .....		6
f. Professional ethics .....		6
g. Internal control .....		4
h. Arithmetic .....		3
i. SEC regulations .....		3
j. Orientation in firm policies .....		2
k. Systems .....		2
D. What kind of textbook or books, if any, do you use in your educational or training work? (Specify).		
a. AIA Bulletins and other material .....		18
b. Firm library .....		8
c. Textbook prepared by firm .....		7
d. Professional magazines .....		7
e. Montgomery's Auditing .....		5
f. Firm's staff manuals .....		4
g. SEC releases .....		4
h. Practice sets .....		3



## Accounting Internship Programs

(Continued from page 29)

3. Because of this observation period, neither the student nor the firm wastes time if the student does not meet the requirement of the job.
- Our students, the cooperating firms and the School are all well satisfied with the Internship Plan and we believe it will set the future educational pattern for accounting students. One practitioner recently said he believes that within ten years many of the public accounting firms will select most of their permanent staff additions from the students who interned with them.

## New York State Tax Forum

Conducted by BENJAMIN HARROW, C.P.A.

### Corporations Engaged in Ocean Commerce

Sec. 4 (11) of the Tax Law grants a rather complete exemption "from all taxation in this state" to New York corporations engaged in ocean commerce. The statute specifies that the exemption covers taxation based upon capital stock, franchises and earnings and is limited to the period beginning January 1, 1933, and ending December 31, 1952. The exemption covers only ocean commerce between any port in the United States and any foreign port. Thus it would not apply to corporations that do any coastwise business. It should be noted that the exemption will end in another year. Because of the increased activity in foreign commerce since the Korean War, the Maritime Commission has disposed of almost all of its Liberty ships and many corporations have been organized in New York to operate these vessels. Such corporations are taxable under article

9A or as transportation companies under article 9 section 183. The corporations nevertheless may be exempt from franchise tax. The exemption was originally put into the law in the early depression years to encourage activity in foreign commerce. Whether the exemption will be renewed beyond December 31, 1952, is uncertain at the present time, although in our opinion it will be, since the need for continued stimulation of activity in foreign commerce will continue for many years.

### Non-residents—Credits against the Tax

The New York Income Tax Law applies to a non-resident on income earned by him within the State. If he is a resident of a state that also taxes income, the non-resident will be taxed on his New York income by two states. To what extent does New York mitigate this double tax on the same income?

Sec. 363 of the Income Tax Law contains a provision for a credit against the New York tax where income is also subject to tax in the state of residence. The credit is not for the entire New York tax. It is only for that portion of the tax paid in the resident state which the New York income bears to the taxable resident income.

This credit is further subject to two conditions. First, the resident state must grant a substantially similar credit to New York residents that may be subject to tax in the other state, or impose a tax on its residents from New York sources and exempt from its tax the personal incomes of New York residents. New York will not allow a credit on any non-resident income which is exempt from tax in the resident state.

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Mr. Harrow has been a member of the American Institute of Accountants since 1922 and is a member of the New York Bar. He is now serving on the Society's Committee on Federal Taxation, and is Chairman of its Committee on State Taxation. He is also a member of the Institute's Committee on Federal Taxation and its Council.

Mr. Harrow is engaged in practice as a certified public accountant and attorney in his own office in New York City.



Deputy Commissioner Kassell recently issued an opinion<sup>1</sup> listing the states whose residents presently qualify for this credit. Nine states are included in this list, among which are California, Massachusetts, Montana, Maryland, and South Carolina.

Reg. Article 482 requires the filing of a claim for credit (form 112) and a copy of the return filed in the resident state. If the resident state revises the tax, the taxpayer is required to notify the Tax Commission so that the New York return may likewise be appropriately revised.

Our law makes no provision for computing a credit where a taxpayer is a resident of New York for a part of the taxable year, and a non-resident for the other part of the year. Prentice-Hall suggests<sup>2</sup> that the non-resident is entitled to a credit on his non-resident return even though at the time of filing the return he may be a resident. The basis for the computation of the credit should be the tax that would be payable to the home state for the portion of the year that the taxpayer was a non-resident of New York.

It should be noted that a resident of New York receives no credit for a tax paid to another state or country on income earned in that state. This is a situation that has long troubled taxpayers. A common example is the receipt of a dividend from a Canadian corporation by a New York resident. Canada withholds a tax on the dividend, but New York taxes the full amount of the dividend without any credit or even a deduction for the Canadian tax.

#### Franchise Tax on Savings Banks

The Revenue Act of 1951 has repealed the tax exemption formerly enjoyed by mutual savings banks, building and loan associations, and cooperative banks. Savings banks are therefore becoming more sensitive to the impact of New York State taxes,

particularly provisions in our law that they consider inequitable.

Under Article 9B savings banks are taxed at the rate of  $4\frac{1}{2}\%$  on net income. All interest credited to depositors is deductible from gross income. However, there is an alternative minimum tax for banks taxable under Article 9B. For savings banks the minimum is 2% on interest credited to depositors. For other banks taxable under Article 9B the minimum tax may be one mill on apportioned issued capital stock. In any event of course the tax for all banks under Article 9B may not be less than \$10.

Savings banks are objecting to the 2% tax as an arbitrary exaction. No other banks are similarly taxed. If they are to be classified with all other banks taxable under Article 9B they cannot constitutionally be subject to a special tax not levied against other banks. That is an improper classification they contend.

In the background of the new federal tax, savings banks will probably test the constitutionality of the 2% tax or bring the matter to the attention of the legislature for statutory relief.

#### Deduction for Life Insurance Premiums

If a corporation carries insurance on the lives of its officers or other key men, does it get any tax advantages? If the corporation is the beneficiary, the proceeds of the policy received by reason of the death of the insured are excluded from gross income. Of course, the annual premiums paid by the corporation are not deductible from gross income. In ordinary life insurance a cash surrender value is built up, which represents an investment value. Because of a tax-free interest element the yield on the investment is much more favorable than equivalent yields on taxable investments. The difference between the cash surrender value and the face value of the policy represents

<sup>1</sup> October 5, 1951.

<sup>2</sup> New York State Tax Service, Par. 57,550.

a windfall profit at the death of the insured.

Such an investment strengthens the financial position of the corporation. If the equivalent premium payments were distributed as dividends to the officer stockholders, the dividends would be subject to tax. The net amount left in the hands of the stockholders after taxes is, of course, considerably less than what remains in the hands of the corporation if the amount distributed as dividends is invested in life insurance. The difference increases the value of the stock so that the ultimate loss to the estate of a deceased officer stockholder is considerably reduced.

It should be noted that the cash surrender value of insurance policies is an admissible asset for excess profits tax purposes, so that there is no loss in the excess profits credit because of the investment in insurance. An investment in tax-exempt bonds or in stock does affect the excess profits credit. A Circuit Court has held<sup>3</sup> that the use of corporate funds to carry insurance on the lives of officers is a business purpose.

### **Capital Gains and Losses**

The Revenue Act of 1951 changed the treatment of capital gains and losses. It would therefore be desirable to consider the difference in the taxation of such gains and losses under the New York Law and the new Revenue Act. The change becomes effective for taxable years beginning after October 31, 1951, which for calendar year taxpayers means 1952. All capital gains and losses will be taken into account at 100% as under the state law. A special deduction will be allowed of 50% of the excess of net long-term capital gain over net short-term capital loss. There is no comparable provision under the state law. An excess of net long-term loss over net short-term gain is offset against ordinary income up to

\$1,000 with a carry-over privilege for five years of any further excess loss. Under state law no offset against ordinary income is allowed, but there is a carry-over privilege of the excess capital loss for five years like the federal law. For 1952, the capital gain tax under the alternative computation has been increased from 25% to 26%. Under the state law capital gains are taxed separately at one-half the rates applicable to ordinary income.

### **Bad Debt Losses—Business or Non-Business**

In a recent Tax Court case<sup>4</sup> the president of a corporation owned 20% of the stock. In 1945, the taxpayer advanced \$4,500 to the corporation at a time when the corporation had a surplus. In 1946, he advanced \$13,000 to the corporation. At that time the corporation had a deficit. In 1947, the corporation went into bankruptcy. The taxpayer deducted both losses as business bad debts. The Commissioner disallowed the losses as business bad debts. The Tax Court held that since the taxpayer was not in the business of financing the corporation neither loss represented a business bad debt. The 1945 loan was allowed as a "non-business" bad debt, which means that the loss could be considered as a short-term capital loss. Since the 1946 advance was made at a time when the taxpayer knew the corporation was insolvent there was no reasonable expectation of repayment, as was the case of the advance in 1945. The 1946 advances therefore were not debts but rather capital contributions. As such, the 1946 advances increased the cost of his stock in the corporation. If the stock became worthless in 1947 the taxpayer could get a capital loss deduction for the worthless stock.

Under the New York Law, no distinction is made between "business" and "non-business" bad debts. The law

<sup>3</sup> *Emeloid Co., Inc.*, 189 F (2d) 230, 1951.

<sup>4</sup> *Bihlmaier*, 17 TC (No. 66), Oct. 8, 1951.

unqualifiedly permits the deduction of all bad debts. (Tax Law, Section 360)

### Installment Sales

A partnership sold real estate receiving not more than 30% of the selling price on the down payment. The transaction therefore qualified as an installment sale under Sec. 44 (b), I.R.C. and Sec. 358 (a) of Article 16. A disposition of installment obligations makes taxable the remaining gain not theretofore reported on the installment sale. What constitutes a disposition is a frequent issue in installment transactions. In a case<sup>5</sup> before the Tax Court the partnership liquidated and turned over the installment obligations to the partners. That was deemed to be a disposition, held the Court.

The result would have been the same under the New York Law. Under Sec. 358(a) (3) and Reg. Article 488D, if installment obligations are distributed, transmitted, sold or otherwise disposed of, gain or loss results. A disposition by gift or transfer in trust is cited in the regulation as an example of a taxable distribution. In the case of transmission at death no gain results provided the executor or next of kin files a bond with the Tax Commission in effect guaranteeing the payment of tax on any installment income received by the person receiving an installment payment. The bond must be filed at the time of filing the income tax return of the decedent for the year of his death.

### How Long May an Estate Be Held Open?

An estate is a separate taxable entity. Taxwise it may be advantageous to keep the administration of the estate functioning for a longer period, particularly if the residuary legatee is the only beneficiary. The income of the estate is taxed at lower brackets than would be the case if the estate were closed and the income received by the beneficiary. A recent Tax Court case considered this issue.<sup>6</sup>

The taxpayer was the executrix and residuary legatee under the will of her father who died in 1934, and of her mother who died in 1942. Distribution of the father's estate was completed by 1944, except for some mortgaged and unmortgaged real estate. All claims against the mother's estate had been paid in 1944. Nevertheless, estate income tax returns continued to be filed for the years 1944, 1945 and 1946. The taxpayer included no estate income in her own return. The Commissioner claimed that the administration of both estates was completed in 1944.

The Court agreed with the Commissioner so far as the father's estate was concerned. The payment of the mortgage or the sale of the real estate was not a duty of the executor, particularly where it was not necessary in order to make a distribution. Since no duties of administration remained, the income of the father's estate was held taxable to the legatees. So far as the mother's estate was concerned, the court held that the executor should be allowed a reasonable time after payment of all claims against the estate before making a distribution to the residuary legatee. A reasonable time, the Court felt, would be 1944 and 1945. For 1946, however, the Court upheld the Commissioner as to the income from the mother's estate.

Under the New York law, income received by estates of deceased persons during the period of administration or settlement is taxable to the fiduciary (Article 242A). If, however, such income during the period of administration is properly paid or credited to any beneficiary it is taxable to the latter (Article 242(i)). Article 249 of the Regulations defines the period of administration or settlement of the estate as "the period required by the executor or administrator to perform the ordinary duties pertaining to administration, in particular the collection of assets and the payment of debts and

<sup>5</sup> *Dixon*, 16 TC (No. 125), May 14, 1951.

<sup>6</sup> *Williams*, 16 TC (No. 108), April 25, 1951.

legacies. It is the time actually required for this purpose, whether longer or shorter than the period specified in the local statute for the settlement of estates."

### Entertainment Expenses

In periods of high taxes the deduction for entertainment expenses results in considerable tax savings. It is therefore desirable to have some records to substantiate the deduction. It is now true that if the court is satisfied that expenditures in this category have been made an estimate will be permitted.<sup>7</sup> But the amount so allowed will be on the conservative side.

The difficulty with this deduction is that the expenditure might contain a personal non-deductible element. Therefore, a taxpayer should be prepared to show that the expenditure was primarily for business and, further, that the business has actually benefited from it. In presenting a record of entertainment expenses, the taxpayer should not include items that are obviously of a wholly personal nature. This may place the accuracy of the record under suspicion. That is what actually happened in a recent case.<sup>8</sup> Some minor personal items had been included. In addition, the taxpayer entertained customers and wives during a period when he had more business than he could service. The court therefore doubted the accuracy of the total deduction and approximated an allowable deduction under the *Cohan* rule, since it was satisfied that some of the expenditures were made strictly for business purposes.

### Taxation of Corporations doing Investment Business

A corporation has interest and dividend income derived from the stocks and bonds and a large capital gain. Its assets consist of cash and securities. How would such a corporation be taxed?

Under the present franchise tax law the corporation is taxed under article 9A. In determining the franchise tax on the entire net income basis, 50% of the dividend income from corporations other than subsidiaries would be excluded and 100% of dividends and interest from subsidiary companies would be excluded. An allocated portion of the balance of entire net income would be subject to tax. A corporation may allocate its investment income by the use of an investment allocation percentage (Article 420). This it may do even though it has no regular place of business outside New York. The allocation percentage is determined by allocating separately the capital of each security investment as actually allocated to New York for the previous year (Article 421). All amounts of investment capital so allocated to New York are added together and divided by the average total of the taxpayer's investment-capital, exclusive of cash. If all the security investments are in corporations that do no business in New York it is conceivable that the investment allocation percentage is zero. In that event the taxpayer would not be subject to any tax under the entire net income basis. The definition of investment income includes capital gains resulting from the sale of investment capital (Article 432).

The corporation may be subject to the one mill tax on investment capital. This is defined as the average fair market value of the investments in securities and at the election of the taxpayer it may include cash (Article 331). Investment capital is automatically allocated as indicated above. However, the percentage of capital allocable to New York generally may not be less than 15% (Article 443). In this case the investment allocation percentage was zero and the 15% floor would therefore be applied.

Present article 9A was intended to make the tax on investment companies

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<sup>7</sup> *Cohan v. Commissioner*, 39F (2d) 540, 1930.

<sup>8</sup> *Schulz*, 16 TC (No. 50), February 20, 1951.

## Accounting at the S. E. C.

Conducted by LOUIS H. RAPPAPORT, C.P.A.

### "I believe I did \$125 worth of work!"

FOR this month's article we take you back to a case reported in 1945 by the SEC in its Accounting Series Release No. 51, involving an accountant's defense of an inadequate examination. The Commission did not disclose the name of the accountant involved or the corporation whose financial statements he certified. The SEC, however, held a private hearing involving the accountant and made the facts public.

The corporation was a broker-dealer and filed a report with the SEC pursuant to a rule under the Securities Exchange Act of 1934. This report contained financial statements which were certified by the accountant in question. The accountant's certificate read in part as follows:

"I have reviewed your accounting records and procedures, analyzed and verified all accounts with debit as well as credit balances and examined or verified all securities and cash items, underlying customers, brokers, officers, and inventory or trading accounts in accordance with the generally accepted audit standards applicable to brokers.

"I hereby certify that the Balance Sheet headed Exhibit A together with the supporting schedules and details corresponding to the questions contained in SEC Form X-17A-5 entered in on the Table of Contents attached to my report herewith, in my opinion correctly reflects the financial status of your corporation as at . . ."

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Subsequent examination of the records of the broker-dealer by the Commission's staff indicated that, as of the date the report was filed, the corporation was insolvent; that customers' free securities had been wrongfully hypothecated in connection with notes payable to banks; other customers' free securities had been treated as securities of officers pledged to secure such officers' debit balances due to the corporation; and that certain notes payable to banks, secured by customers' free securities, and the collateral thereto were not recorded on the books of the broker-dealer and were not included in the liabilities shown in the certified statement of financial condition.

The Commission instituted proceedings under its Rules of Practice to determine whether the accountant should be denied the privilege of practicing before the Commission.

The auditor was a CPA with thirty years' experience but was actually engaged mostly in tax work—only twice before had he made audits of a broker-dealer. He had met the broker-dealer's president through another client, but had done no work for the broker-dealer previously. Arrangements for the engagement whereby he was to certify the financial statements of the broker-dealer were made by one of its officers who was also the firm's bookkeeper. Prior to his audit in connection with the report to be filed by the broker-dealer with the SEC, the accountant had read the instructions applicable to the report including the minimum audit requirements which were prescribed in the form.

His "audit" consisted primarily of (1) preparation of a trial balance of the general ledger, (2) examination of securities on hand at a date several days

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## Notes on the New York State Unemployment Insurance Law

*Conducted by* SAMUEL S. RESS

THIS being the legislative season, it seems appropriate to point out some suggested proposals to amend the New York State Unemployment Insurance Law. The present law disqualifies employers whose accounts ended up "in the red," from receiving a reduced Unemployment Insurance rate for a three-year period.

This situation occurs when the amount of Unemployment Insurance benefits paid out to the former employees of such employers exceeds the amount of contributions credited to that employer's individual account. That employer is saddled with the top 2.7 percent rate for the three years, regardless of the extent to which his individual account may have been improved because of expanded payrolls during the subsequent three years.

By eliminating the three-year 2.7 percent contribution rate freeze, an employer would be given some inducement to expand his payrolls. It would appear that an employer in an expanding market under the present provisions of the law would find that he had to pay contributions at the 2.7 percent rate on an expanding payroll and thus at the end of three years, should business con-

ditions fall off, he would find that he has been given a reduced Unemployment Insurance rate on greatly reduced payrolls. The net result would seem to be therefore that the three-year freeze provisions would serve as a deterrent to expanding payrolls and counteract the intent of the merit rating provisions of the law to serve as an inducement to increase payrolls.

Another suggested amendment to the New York State Unemployment Insurance Law would be to provide for the payment of voluntary contributions over and above the rate provided in the present law for the particular employer. A small voluntary contribution might have the effect of showing a more favorable balance in the employer's account so as to enable him to qualify for a lower Unemployment Insurance Tax rate in the subsequent year. Such a provision is in effect in nineteen other states at the present time, including the State of New Jersey.

Many employers may find themselves saddled with higher Unemployment Insurance Contribution rates through no fault of their own, but only because of the nature of the business which they operate.

Many industries during the past fifteen years have shown a relatively higher rate of unemployment than other so-called stable industries. It appears that employers in such industries that have a normally high rate of unemployment, might be given some relief by adding a fifth factor to the Unemployment Insurance Law's Experience Rating Provisions. This factor might have the effect of eliminating the normal Unemployment Insurance charges from the individual employer's account,

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and restrict the benefit charges against his account so as to give an employer in such an industry a better opportunity for a lower rate. It has been argued that "merit rating" in unemployment insurance operates to reward the good employer with a lower tax rate and to punish a bad employer with a higher tax rate. Enactment of the aforesaid suggestions may help many without hurting any.

### Some Recent Decisions

The Unemployment Insurance Appeal Board reversed the decision of the Referee in Case #27899-51, dated October 19, 1951. They permitted oral testimony by the Employer's accountant to explain away the findings of a New York State Unemployment Insurance payroll examiner's report on his investigation of the employer's books and records.

The State Auditor's report showed that commencing with the week ending December 15, 1945, and continuing to the close of the year, four names were listed on the Employer's payroll records. Based on that report the Industrial Commissioner issued a determination holding the Employer subject to the law as of December 11, 1945, and liable for contributions. The Employer contested the determination and after the hearing the Unemployment Insurance Referee sustained the Industrial Commissioner and held that the Employer was subject to the law.

At a further hearing before the Appeal Board the accountant for the Employer testified that the Employer had only two persons regularly in its employ. For the week ending December 8, 1945, a third employee was hired for two days on a trial basis. He was paid for those two days the following week.

For the week ending December 15, 1945, three persons were regularly employed for a period of six days and even

though four names appeared in the payroll book for the week ending December 15 and for the week ending December 29, the Employer did not have four persons regularly employed on 15 different days during the calendar year 1945.

It was the Appeal Board's opinion that the Industrial Commissioner and the Referee were in error in holding the Employer subject to the law on the basis of the entries made in the Employer's books by its accountant. The oral testimony of the accountant at the hearing was accepted by the Appeal Board to explain away the State Payroll Examiner's determination of the entries made in the payroll book.

### Unavailability for Employment

One of the prerequisites for unemployment insurance benefits is that the claimant must be ready, able, and willing to take a suitable job. One of the important functions of the unemployment insurance department is to see to it that the benefit claimant has exposed himself to employment. When the State authorities feel that the claimant has failed to make sufficient effort to obtain employment they disqualify him from collecting unemployment insurance, and in many cases they make the determination retroactive and make a demand for the reimbursement of the alleged overpayment on the grounds of "unavailability."

The Appellate Division in Appeal Board Case Number 25,727-50,\* held that a seaman whose seniority was sufficient to obtain a job announced in the union hiring hall by bidding for it under the system in effect, but who failed to obtain employment in this manner, was held to be unavailable for employment. No *bona fide* job offer had been made specifically to the claimant but because he might have obtained the job by bidding for it he was held unavailable. In another case, 10-65-51R, it was held that a claimant was deemed

\* Matter of Kalm, decided September 19, 1951.

available for work even though she had not made a search for work in her community. In his decision the referee stated that

"... the independent efforts made by a claimant to seek work are factors which shed light on claimant's availability for work only in instances where it is reason-

able to expect that a job search might prove fruitful. However, when the claimant lives in a small compact community... the fact that a job search would be of no avail because there are no suitable job opportunities in the area, the law does not expect that she will do a futile act and engage in a search for work merely as a gesture to satisfy an alleged requirement of the law."

## Accounting at the S. E. C.

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after the date of the statement, (3) comparison of such securities with a purported inventory of securities handed him by the bookkeeper, (4) reconciliation, as of the date of the audit, of two bank statements which were given to him, together with the applicable canceled checks, by the firm's president, and (5) examination of some correspondence in the firm's files and of certain "confirmations" of bank loans and the underlying collateral obtained by the president.

The form of report required of broker-dealers in this situation contains certain *minimum* audit requirements for the proper substantiation of a statement of financial condition of a broker-dealer. The accountant in this case had omitted several important procedures and safeguards which are prescribed in the form, the most important of which were:

A. Verification of securities in transit or transfer;

B. Obtaining of written confirmations by direct correspondence in respect of bank balances, money borrowed and collateral pledged thereagainst, accounts and securities carried for others, securities borrowed and loaned, securities failed to deliver and failed to receive, and accounts with customers, officers and directors; and

C. Review of the methods of internal accounting control of the broker-dealer and its procedures for safeguarding securities.

In the course of his testimony, the

accountant stated that he "didn't complete the thing perhaps, the way I should have \* \* \* perhaps not as thoroughly as I should \* \* \* I was anxious to get away. I went down to Florida and this engagement was the last one I had prior to going, and I was more or less in a hurry \* \* \* We agreed on a price of \$125 to do the work in connection with the balance sheet audit and I believe I did \$125 worth of work. That is about the size of it \* \* \* I did what I would ordinarily do unless there was something that came up that was peculiar or different or I suspected anything, but in this case I didn't and actually I had only this short experience in connection with brokers \* \* \* If I suspected there was anything wrong one thousand dollars wouldn't have covered the thing. I mean, whatever you have to go through I—in other words, I wouldn't have taken the engagement at all because I was in a hurry to get away \* \* \*"

The SEC concluded its report of these proceedings by saying that the failure of the accountant to perform a satisfactory audit does not appear to have contributed to the fraud perpetrated by the broker-dealer involved, nor apparently did the accountant's extreme laxity cause losses to the investors of the broker-dealer. For this reason, and since the accountant among other things had agreed that he would never again practice before the Commission as an accountant, the proceedings with respect to the accountant were discontinued.

## Office and Staff Management

A forum for the exchange of views and information on all aspects of the administration of an accounting practice.

Conducted by MAX BLOCK, C.P.A.

### Tax Problems of Accounting Partnerships

LAST month there was a comment in this column on certain tax problems of accounting partnerships. Since that was written a Tax Court decision was handed down which should interest accountants whose partnership agreements provide for a number of annual payments, not for goodwill, to the estates of deceased partners.

In this case, *Estate of Boyd C. Taylor*,\* the deceased was a member of an insurance firm. Their agreement provided that the estate of a deceased partner had an option to become a partner for a specified term. Some accounting firm agreements have a similar provision.

The tax problem was created by the capitalization, for estate tax purposes, of the estimated annual income from the partnership and the subsequent annual amortization of such capitalized amount as a deduction from the estate's taxable income over the term of the partnership arrangement. Both the Commissioner and the Tax Court held that there was no ground for the capitalization of the anticipated income and inasmuch as "this right does not consti-

tute capital, petitioner is not entitled to any depreciation thereon."

Accountants who are adherents of the position that there cannot be goodwill in a personal service partnership will find this case to their liking and should read the decision.

An entirely different aspect of partnership tax problems was involved in another case, also of special interest to accountants. In this instance a law firm was dissolved twice, once by the bankruptcy of a partner and thereafter by a death. The third successor firm bought an account receivable which was earned by the first firm. Upon collection, one of the partners of the third firm treated the excess realized over cost as a capital gain. This was denied by both the Commissioner and the Federal District Court.

Thereafter, the plaintiff revised his attack and claimed a refund on the ground that he was entitled to Section 107(a) treatment (allocation to the years in which the services were rendered) on the amount collected. This position, too, was denied. The Court held that "the third firm was for taxation purposes a separate and distinct entity." There undoubtedly are some accounting firms who are, or may be injected into, a similar position and they will find this case very interesting reading. An appeal has been taken to the Circuit Court and for that reason the decision cannot be considered final. (*Laurence Sovik and Gladys Sovik v. Shaughnessy*, U. S. D. C., No. Dist. of N. Y., 92 F. Supp. 202.)

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\* 17 T.C. 67, October 8, 1951.

### **Exemption of Accountants' Compensation From Salary Stabilization Control Denied**

In behalf of all accountants, nationally, the American Institute of Accountants filed a brief with the Salary Stabilization Board urging that the compensation of accountants be exempted from salary controls. The following arguments were advanced:

- (1) that the work-load and responsibilities of many staff men in public accounting firms have been substantially increased as a result of new taxes and the Defense Program, and it is only fair that their compensation should be increased accordingly, particularly since fees for professional services are exempt from price control;
- (2) that normal business patterns of promotions and pay increases are not satisfactorily applicable to compensation for professional services; and
- (3) that the position of certified public accountants in the employ of public accounting firms is strictly comparable to that of lawyers employed by law firms and physicians employed by hospitals who were exempted from control by amendment of the Defense Production Act.

The Salary Stabilization Board handed down an adverse decision, despite the fact that doctors' and lawyers' compensation is exempt (by statute) on this ground:

"The Salary Stabilization Board took up at its meeting on Friday, October 12 the request of the American Institute of Accountants for exemption of certain certified public accountants. The Board considered this matter carefully and concluded that the petition could not be granted. The basic reason for the Board's determination was that the Board feels that any exemptions of any public groups from the regulations which pertain to all segments of the economy should be made by the Congress rather than by the Board."

### **Affidavits on Tax Returns**

Several months ago, in this column, we discussed the matter of whether qualifications were required in the affi-

davits (declarations) on tax returns which must be signed by accountants who prepare the returns. Another aspect of this problem has since cropped up, to wit, who should actually sign the return, the staffman who gathered the data and prepared the return, or a partner of the firm.

An imposing argument on one side is that the staffman will be more careful if he knows that he is to sign the affidavit. On the other side there is the argument that the firm is really responsible for the preparation and that client relations are better if a partner's name appears in the affidavit.

The views and practices of readers as to this matter are solicited by the Editor.

### **Tax Department Mechanics**

Following up prior discussion of how to improve the efficiency of the tax department (and of staff members drafted into it during the personal income tax season) in the physical handling of the returns, here is an additional aid of no small importance. It is the use of a practical and convenient cabinet for tax forms, instruction sheets, and related other forms.

Some firms keep blanks in ordinary filing cabinets, some place them in storage cabinets and other odd places, but some have a wooden cabinet built to accommodate the large, medium, and small forms commonly used by the staff all year round. The latter group enjoy a considerable advantage. First, returns are more easily found and handled—which is a time saver. Second, the cabinet is more orderly and displacements are minimized. Third, the size of the supply is openly visible and the danger of running out of blanks is reduced. So—take a look at your tax form receptacle, and if it is inadequate or obsolete treat yourself and staff to a streamlined, efficient cabinet.



# The Excess Profits Tax Exchange

Conducted by DAVID ZACK, C.P.A.

**T**HIS column is a clearing house for questions, problems and comments regarding Excess Profits Taxes. Items of general interest will be published herein and full credit will be given all contributors unless they request otherwise. All inquiries and contributions should be addressed to:

Editor, The Excess Profits Tax Exchange  
The New York Certified Public  
Accountant  
677 Fifth Avenue  
New York 22, N. Y.

## Excess Profits Tax Changes

The Revenue Act of 1951 made many important changes, retroactively, in the Excess Profits Tax Law. It is not within our purpose or scope to attempt any comprehensive review of these legislative amendments, but it would seem worthwhile to highlight some of the most important features having general practical significance.

Probably the major beneficiary, from the excess profits tax point of view, of

the new law, is the so-called "new corporation." Especially low ceiling rates are provided on excess profits net income for the first five years after the corporation commenced business. These rates, applied only to the first \$300,000.00 of corporate *excess profits net income*, range from 5% for the first two years, 8% the third year, 11% the fourth year, up to 14% the fifth and final year of special ceiling limitations. After the first five years, and at all times on the excess profits net income in excess of \$300,000.00, the regular limitation rates apply. The taxable year in which the corporation "*commenced business*" is deemed to be its first year and the count is taken up from there. These special ceiling limitations are not available to those taxpayers which derive more than 50% of their *gross income* for the taxable year from contracts and subcontracts subject to renegotiation. The gross income for this purpose is computed without regard to dividends and capital gains and the income from the defense contracts is figured after renegotiation settlements. "Gross income" is of course figured after allowance for cost of goods sold, and those corporations which are engaged simultaneously in civilian and defense work would do well to keep careful cost records for the purpose of this section. Corporations which resulted from a tax-free reorganization or which are permitted to use a predecessor's base period record are deprived of these favorable ceiling limitations unless the predecessor corporation was itself entitled to the use of these special maximum rates. The retroactive benefits of this section of the law are also denied to those corporations which are controlled by

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stockholders who simultaneously control an old corporation engaged in the same line of business.

Another advantage granted to "new corporations" by the Revenue Act of 1951, is the right to use the growth formula. Those corporations which commenced business in the second half of the base period will automatically qualify for growth since their payroll and gross receipts for the first half of the base period will be zero. In this connection, it should be remembered that computations should first be made in order to determine whether the growth formula will yield a greater credit.

The basic relief provided for new corporations under Section 445 of the Internal Revenue Code is the application of the industry rate of return to so-called "total assets." During the first three years of its operations, the original law restricted the borrowed capital portion of the "total assets" to 75%. The Revenue Act of 1951 corrected this inequity by permitting the use of the full 100% of borrowed capital.

Two changes in basic computation rates were made by the Revenue Act of 1951 which the practitioner should keep in mind, particularly if he is working with the old 1950 Schedule EP. The general over-all limitation of 62% of excess profits net income less the product of the regular normal and surtax rates applied to the excess profits net income, has been supplanted by a flat 18% ceiling based on excess profits net income. This is one of the few changes which is not fully retroactive, being effective April 1, 1951. The law provides a special ceiling rate for the calendar year 1951 of 17¼%, but fiscal year taxpayers which straddle March 31, 1951, must make the calculation under the old 62% rule and the new 18% rate and allocate on the basis of the number of days before and after March 31, 1951. This computation is further complicated for those corporations with fiscal years begin-

ning before July 1, 1950, and ending after March 31, 1951. This results from the fact that the Revenue Act of 1950 changed the normal and surtax rates effective July 1, 1950, and these rates are significant in the computation of the 62% limitation applicable to the period prior to April 1, 1951. These situations will require the computation of three sets of tentative excess profits tax limitations. Whatever the Congress may have had in mind in the enactment of this legislation, it certainly was not thinking of the poor overburdened accounting practitioner. It might be interesting, if not helpful, to compute the number of skilled man-hours spent in these sort of computations, which could presumably be spent in more productive work, especially in these days of scarce manpower.

The other change in computation occurs in the reduction of the income credit. This amendment is also not fully retroactive, being retroactive only to July 1, 1951. The rate applied to the average base period net income is reduced from 85% to 83%, effective July 1, 1951. For the calendar year 1951, the rate is specified at 84%; other years straddling July 1, 1951, must be computed both ways and allocated on a daily basis.

Because of these and other changes enacted by the Revenue Act of 1951, the Act extended the due date of income and excess profits tax returns for corporations with fiscal years ending after March 31, 1951, and before October 1, 1951, until January 15, 1952. Any returns filed prior to the enactment of the Act are void and must be refiled. A similar situation arose in connection with the enactment of the Revenue Act of 1950. In the refiled of any returns it would seem wise to complete the form fully, without relying at all on the earlier invalid return, lest the taxpayer be subsequently charged with the filing of an incomplete return. It must be remembered that January 15, 1952, now becomes the effective due date for these returns



## *The Excess Profits Tax Exchange*

for all purposes, including the starting point for the operation of the statute of limitations, the instalment dates for tax payments, etc.

Relief is provided in the new law for those corporations with fiscal years ended after the first quarter of 1950. Previously these taxpayers were required to use the calendar years 1946, 1947, 1948 and 1949 as their base period. They are now permitted to use the 48 months ending with March 31, 1950, if it results in a lesser excess profits tax. This option is solely for the purpose of the general average computation, the regular base period remains the same for all other purposes. Any income after June 20, 1950, which is used for this purpose is subject to the same weighted reductions required with the growth formula.

The original excess profits tax provisions enacted in 1950 did not permit a decrease in inadmissible assets to give rise to a net capital addition for

the current year. The Revenue Act of 1951 provides that a capital addition for the current year may result if the proceeds from the disposition of the inadmissible assets are invested in merchandise inventory or tangible property used in the taxpayer's trade or business.

### **Abnormal Income**

Many readers have inquired whether abnormal income attributable to earlier years which were subject to the World War II excess profits tax law (1941-1945) would require the recomputation of such earlier excess profits tax under Section 456 of the current law (old Section 721).

The answer is "No." Section 456, dealing with abnormal income during the current taxable year affects only those years covered by the present Excess Profits Tax Law, which at the moment is July 1, 1950, to June 30, 1953.

## **New York State Tax Forum**

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attractive in order to keep such corporations in New York. Under the facts of this case the corporation meets the conditions that enable it to earn considerable income with a minimum of tax, as compared with business corporations.

### **Unincorporated Business Tax— Interest Deduction**

Five individuals are members of a partnership doing business in New York. One individual is a limited partner. He transfers his capital to a corporation. The corporation agrees to leave the indebtedness with the partnership permitting the latter to pay off the indebtedness over a period of time. The partnership pays interest on the balances due to the corporation. Is the interest deductible from gross income in determining net income subject to the unincorporated business tax?

Before the transfer of the capital of

the limited partner the limited partner's share of the income of the partnership represents a distribution of partnership income and of course is not deductible from gross income for unincorporated business tax purposes. After the transfer of the limited partner's capital the interest payment in our opinion would be a proper deduction.

In the first place the transfer of the capital results in a legal dissolution of the partnership. In the second place a corporation under New York Law may not be a member of a partnership. The limited partner's capital has thus been converted to a chose in action and represents an indebtedness of the new partnership now consisting of four members. Any interest payment on such an indebtedness does not represent a distribution of the profits of the new partnership, but rather a proper business expense, properly deductible from gross income.

## BOOK REVIEWS

(Continued from page 7)

*Summary*—The editor and contributors avoided following the usual pattern of text, which is questions with answers or problems with solutions; instead, they have formulated a unique treatise featuring illustrated discussions, wherever possible utilizing a C.P.A. examination question regularly appearing in prior examinations per survey results. This manual may be coordinated as a required supplementary reading in senior courses in problems and should prove most helpful to all candidates for the C.P.A. examination. It saves the time required in reviewing several texts and fills in many blind spots in professional and technical background subject matter. It serves as a reliable introduction to the general rules, procedures and considerations in preparing for the C.P.A. examinations and should help candidates to answer questions with greater confidence.

LEO SCHLOSS

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Brooklyn, New York

### Insurance Agency Accounting

By Ernest Lawrenson. PRENTICE-HALL, Inc., New York, N. Y., 1950. Pages: x + 115; \$3.95.

This book was written primarily for the agent just starting in the insurance business, or as a guide to the new bookkeeper who has not been initiated into the insurance agency business. The Foreword is given by John C. Stott, President of the National Association of Insurance Agents and should therefore be generally accepted by members of that Association. The book is written in three sections.

The first describes the system of keeping records for an agency. It covers all phases of a small undertaking. It describes records that are primarily designed as handwritten records. However, it is possible to adapt them to machine operations. The author has done quite a remarkable job in stating the technicalities of insurance in plain and easily understood language.

The second section gives instructions on specific procedures which should be easily understood by the beginner.

The third section deals with illustrative exhibits of information that may be obtained from the books as outlined in the system.

It is hardly meant to be a treatise on accounting for certified public accountants, but

it is something that could very well be recommended by the accountant to clients or agents, or to their bookkeepers. The full knowledge of the contents of the book would certainly enable the bookkeeper to keep better records and to make the work of the accountant easier.

WILLIAM F. DOWLING

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### Municipal Accounting and Auditing

(No. 14 in a Series of Publications.)

NATIONAL COMMITTEE ON GOVERNMENTAL ACCOUNTING, Chicago 37, Ill., 1951. Pages x + 250; \$4.00.

This volume revises and combines the publications *Municipal Accounting Statements*, *Municipal Funds and Their Balance Sheets*, *Municipal Accounting Terminology*, and *Municipal Audit Procedure*.

The book is divided into four parts. The first part discusses the general principles of municipal accounting. The second part is subdivided into four sections as follows:

1. Individual Funds and Their Financial Statements.
2. Financial Statements Applicable to All Funds.
3. Statistical Tables.
4. Financial Statements Prepared During the Fiscal Period.

Municipal audit procedure and definitions of the most commonly used municipal accounting terms are dealt with in the third and fourth parts of the book.

A number of important changes in terminology and form are worthy of note at this point. First, the statement prepared by the Special Assessment Fund which was called "Statement Analyzing Changes in Reserve for Authorized Expenditures" is now entitled "Statement of Expenditures and Encumbrances Compared with Appropriations." Secondly, a new form has been introduced for the Statement Analyzing Changes in Unappropriated Surplus. In addition, the use of the term "Appropriation" is suggested in lieu of "Reserve for Authorized Expenditure" as the capital account for the Special Assessment and Bond funds. The suggested form of the balance sheet for Utility and Other Enterprise Fund follows the set-up recommended by the National Association of Railroad and Utilities Commissioners. The term

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## BOOK REVIEWS

(Continued from page 70)

"Other Enterprise" has been added to the Utility fund to cover municipal airports. A new form is suggested for a combined statement of general fixed assets and general bonded debt and interest (p. 140). In the opinion of this reviewer, this form fills the requirements of those states and subdivisions which require a capital fund and yet eliminates the need for the objectionable balancing account called "Surplus Invested in Fixed Assets." The inclusion of an Income and Expense Statement for a Municipal Airport is based on the publication *Airport Accounts* by Joseph M. Cunningham (M.F.O.A., 1945), and on *Airport Financial Statements* (C.A.A., 1948). The term "reserve" is used only to denote an earmarking of surplus. Its use in connection with depreciation has been eliminated and the word "allowance" substituted.

This book is a composite of the thoughts of the American Accounting Association, American Institute of Accountants, American

Municipal Association, International City Managers' Association, Municipal Finance Officers Association, National Association of Cost Accountants, National Association of State Auditors, Comptrollers and Treasurers, National Association of State Budget Officers, National Municipal League, and sundry Bureaus of the federal government.

It is this reviewer's hope that the principles and procedures expounded in this volume will be followed by governmental bodies and accounting practitioners (as well as those who set professional examinations involving municipal accounts). Only then will the phrase "in accordance with accepted municipal accounting principles" have the significance it is intended to convey.

MAX ZIMERING

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Civic Administration  
The City College of New York.



### AN ADIRONDACK VIEW

**Resolutions.** Well, you might just as well make them—you can't do any more than break them—and you won't be the only ones. They are always a reminder of how much easier it is to resolve, vote, or decide to do something than it is to do it—like national prohibition, getting statements out by the 10th, and spending more time at home with the family. So here they are for you, you probably overlooked them yourself:

1. When dividing a whole into percentages, it is resolved not to have these percentages total more than 100 percent—like we did in the December issue! Of course, there was inflation in 1951 and perhaps 100% went to 105% without our noticing publication of the fact in any accounting bulletins or conference speeches.
2. Regardless of the miles to go, uncrowded roads, and four lane turnpikes, it is resolved not to "drive like lightning and crash like thunder." We CPA's favor more business for the premium departments of the insurance companies—and less business for the claims departments.
3. And no arguments—discussions only. Arguments develop heat when it's light that's needed.
4. Also in 1952 we CPA's are not going to do this and rush to do that and afterward wish we had taken more time. No sir, we are not going to ulcerate our stomachs and break our necks getting things done in a hurry, and getting them done—wrong.
5. Finally, in 1952, we resolve to remember, that when the shadows darken the valleys, the sun always shines on the mountain tops.

LEONARD HOUGHTON  
Adirondack "Chapter."

## OFFICIAL DECISIONS *and* RELEASES

### Practice of Attorneys and Agents Before the Treasury Department

Treasury Department Circular No. 230 (Revised)

#### Expiration and Renewal of Enrollment Cards

31 CFR 10.6 is amended by the addition at the end thereof of a new paragraph designated (d) and reading:

“(d) *Expiration and renewal of enrollment cards.* All enrollment cards which shall have been issued to persons enrolled to practice before the Treasury Department prior to January 1, 1952 shall be void after March 31, 1952. An enrollee holding a void card shall promptly surrender it to the Committee on Practice. Application for issuance of a renewal card may be made at any time between January 1, 1952 and June 30, 1952. An application for renewal shall be filed with the Committee on Form 23A. The form will call upon the applicant to state whether he made an income tax return for each year since the date of his enrollment, with what collector the last return was filed, and the reasons for not filing any such return; and whether the applicant has been cited to appear before any professional disciplinary body or convicted of a crime other than minor traffic violation since the date of his enrollment, and, if so, the details. Copies of Form 23A will be available at the office of the Committee on Practice and at the offices of all collectors of internal revenue, of all internal revenue agents in charge and of all special agents in charge. The Committee will issue a new enrollment card if a timely application is made and if the Committee is satisfied that the applicant is eligible to retain enrollment in accordance with 5 U.S.C. 261 and the regulations in this part. The reporting requirements of this paragraph have been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942.”



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